

THE STATUS OF
UNEMPLOYMENT INSURANCE

LEAH E. BENNETT

L I B R A R Y

B O S T O N
U N I V E R S I T Y




C O L L E G E
of
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OF
UNEMPLOYMENT INSURANCE

by

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The College of Business Administration
of
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PREFACE

The field of unemployment insurance is so broad that it has been necessary to limit the scope of this thesis. Therefore, the subject has been developed primarily from the social point of view, with particular reference to the adoption and development of this policy in the United States.

The first part, by way of introduction, deals with the problem of unemployment, setting forth the causes and relating briefly the effects. The second part describes the general methods of dealing with unemployment, other than by insurance, and also the possibility of relief by means of insurance. The third part shows the development of some of the insurance schemes in foreign countries. The fourth part deals with the proposed legislation and also with the plans established in the United States by private interests. The fifth part, in conclusion, presents observations and comparisons of existing plans, summarizes the plans in operation, and discusses the practicability of establishing insurance against unemployment as a government measure at the present time.

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PART I

INTRODUCTION

CHAPTER I

THE PROBLEM OF UNEMPLOYMENT

The widespread unemployment which has existed in the United States during the last two years, the extent of unemployment during normal and even during prosperous years, the more or less successful experimentation abroad with various types of public insurance against unemployment, and the increasing number of bills presented every year in the legislatures of the several states, all have been important factors in making the problem of unemployment and the possibility of relief by insurance of growing interest in this country.

Unemployment is one of the gravest evils of the modern economic system and undoubtedly is responsible for many of the other social problems. The majority of people are entirely dependent upon whatever remuneration they receive for their labor to obtain the necessities of life. If this income is insufficient to cover more than current living expenses, there can be little or no saving for periods of unemployment.

When a period of unemployment deprives the working man of his income, his family feels the loss keenly because its standard of living must be lowered. When prolonged unemployment occurs, the hardships are intensified and the effects of such a period upon the members of a family may never be completely eradicated by later prosperity.

NOT A NEW PROBLEM

Unemployment is not a new problem. It has existed to some extent since producer and consumer have been different persons. During the middle ages, under the handicraft system of production, the unemployed worker secured help from the Guild to which he belonged.¹ The Industrial Revolution brought to an end the period of manufacturing on a small scale and laid the foundation of the present economic system by initiating the three functions of capitalist, employer, and laborer.

European countries have been cognizant of this problem for many years. The Elizabethan statute passed in England in 1575 was the first national attempt to provide for the able-bodied unemployed. In this law, the distinction is clearly drawn between the "poor" class, composed of those unable to secure work because of physical or mental defects, and the involuntarily unemployed.²

Attitude in the United States

In America, attention has been concentrated on the problem only during recent years. Until the beginning of the twentieth century, the rapidly growing industrial system absorbed most of the available labor supply. The development of the West was another factor which kept the unemployment problem in the background, since the opening of this new

1 William Bailey--"Unemployment Insurance" p.3

2 Mary Barnett Gilson--"Unemployment Benefits in Great Britain" p. 25

country seemed to provide a means of support for surplus labor. Any able-bodied unemployed person was considered a "loafer" and a burden on society.

In spite of this optimistic viewpoint, unemployment was recorded in the United States as early as 1819, when a Philadelphia newspaper reported that there were 20,000 able-bodied men in that city daily seeking work, in New York at least 10,000 workmen were unemployed, and in Baltimore 12,000 persons had only unsteady unemployment.¹

In 1857, Harper's Weekly stated that "in our own country there is universal prostration and panic, and thousands of our poorest fellow-citizens are being turned out against the approaching winter without employment and without prospect of it."²

The census returns of 1900 showed that 6,468,964 persons, or nearly twenty-five per cent of those normally employed in gainful occupations, had been unemployed for periods varying from one to twelve months during the year 1899.³

Public opinion in regard to the opportunities for employment remained unchanged through the first decade of this century. It was conceded that workers must expect short periods of unemployment, but it still was expected that their savings should carry them through such emergencies.

However, the attitude of labor organizations and of industrial leaders toward the problem differed from that of the

1 Joseph L. Cohen--"Insurance Against Unemployment" p. 20

2 Rutland, Vermont, Herald, November 15, 1931

3 Joseph L. Cohen--"Insurance Against Unemployment" p. 24

general public. Early in the twentieth century, these leaders reached the decision that personal incapacity was not the major cause of unemployment and that the involuntarily unemployed did not deserve to be treated as objects of charity.

The industrial expansion in America during the latter part of the nineteenth century stimulated interest in the problem of unemployment. The research carried on in Great Britain prior to 1909, the establishment of the British system of unemployment exchanges in the same year, and the provisions in 1911 for national unemployment insurance in that country aroused considerable discussion as to the possibility of establishing a system of insurance against unemployment in the United States.

In 1915, the United States Commission on Industrial Commissions published a report which recommended that trade unions extend their plans for insurance against unemployment, that an adequate number of national labor exchanges be established, and that industrial leaders be encouraged to adopt plans and policies to regularize industry.¹

Situation during the World War

During the years of the World War, unemployment was probably at the lowest possible point. With a large proportion of male workers leaving their positions, there was an increasing demand for labor to maintain the industries at home. A new labor supply was recruited from two sources: wo-

¹ Bryce M. Stewart--"Unemployment Benefits in the United States" p. 8

men entered the industrial world to fill positions previously closed to them; and people in agricultural districts who had never before worked in industrial plants moved to larger communities where a demand existed for their labor. Wages were high, factories were operating to capacity, and so for the time being the problem of unemployment was over-shadowed by the much greater issue of war.

The Post-War Situation

After the World War, the demobilization of forces released an additional labor supply which industries tried to absorb. For approximately two years war momentum and the meeting of needs suppressed by the war kept unemployment at a minimum.

During the post-war period from 1920 to the present time, European countries, particularly Great Britain and Germany, have had unemployment to an unprecedented extent. These countries, industrialized before the war, had diverted their manufacturing facilities to producing materials for war purposes. When conditions again enabled manufacturing to resume operations along customary lines, it was discovered that many former markets, with their decreased purchasing power, were no longer profitable; in other cases, industrialization had spread so rapidly to other countries that former markets had disappeared entirely. In these countries which were unable to return to their pre-war standards in industry and commerce, the unemployment problem soon became an appalling one, and

has commanded the attention of practically all of Europe during the last decade.

In the United States, during the depression of 1921-1922, at least 4,000,000 workers¹ were jobless. In all probability this situation provided the impetus to public recognition of the problem. The President's Conference on Unemployment was called in 1921 to consider remedies for the situation. This was the first national conference on the subject called by the government and marked a decided change in the national viewpoint in regard to its responsibility to provide comparatively steady employment.

The committee recommended the adoption of an emergency program and asserted that, since the problem was a local one, each city should have an emergency committee to carry out a definite community plan. The recommendations for relief measures were of an emergency nature and the opinion of the committee was that permanent recovery of industry, which would prevent unemployment, was the important issue.

Effect of Present Depression

At the present time the problem is of paramount importance to industrial America. During the last two years, the United States, in common with the rest of the world, has passed through a period of unusual depression which has aroused the deep concern of every one. Since 1929, there has been much agitation for the establishment of some system of

¹ Joseph L. Cohen--"Insurance Against Unemployment" p. 27

unemployment insurance by many different groups, including labor leaders, socialists, trade unions, and private citizens. Our abnormal unemployment has stimulated discussion on the merits and demerits of preventives and of insurance against unemployment. Some 12,000,000 workers, possibly more, or approximately one-fourth of the working population, have been seriously affected by the 1929-1932 depression.¹ As a natural growth of the anxiety for the welfare of all wage-earners, public interest is now concentrated as never before on the question of unemployment and on every possible solution of the problem.

Change in Viewpoint

The change in American thought on unemployment during the past ten years is striking. No longer does the average person believe that the majority of jobless workers reach that unfortunate condition through personal incapacity. Unbiased observation has proved, beyond any doubt, that when a plant closes because of lack of demand for its product, the individual workers, perhaps the picked men of their trade, cannot possibly be at fault.

The prevailing sentiment is that unemployment is a condition brought on by the rapid advance of industrial progress, and that it is due to economic conditions beyond the control of the worker, rather than to his personal characteristics.

1 The Annals, March 1931
Reports" p. 15

Dr. Charles E. Persons--"Census

A WORLD-WIDE PROBLEM NOW

The problem of unemployment is not restricted to any one country, but is encountered in practically every country in the world.¹ The United States is experiencing a most serious unemployment situation, with at least 8,000,000 workers² idle, the highest in the history of the nation, and nearly as many more on a part-time basis. The acuteness of the present industrial situation here needs no emphasis. The chief industrial countries of Europe are faced with the tremendous problem of providing work or aid for approximately 10,000,000 unemployed workers during the year 1932.³ Statistics have been compiled by Associated Press Bureaus in the European Capitals which indicate the number of unemployed on January 1, 1932 in the five largest countries. The table given below shows the distribution of the unemployed workers in those countries.

Table 1
Unemployment in Europe, January 1, 1932

<u>Country</u>	<u>Unemployed</u>	<u>Working Population</u>
Germany	5,349,000	32,008,800
Great Britain	2,506,700	19,357,300
Italy	878,000	18,283,300
Spain	500,000	8,094,100
France	300,000	21,394,100

In addition to the unemployment known to exist in the five countries listed, the smaller countries have thousands

1 Literary Digest, June 14, 1930--"Workers' Troubles in Other Lands" p. 15

2 Boston Post, January 9, 1932 William H. Green--"Declares 8,000,000 Workless"

3 Boston Globe, January 2, 1932--"Europe Faces Extreme Unemployment in 1932"

of unemployed. The number cannot be determined accurately, because official national figures on unemployment are not provided. France has enjoyed rapidly increasing prosperity during recent years and is one of the last to be affected by the world economic crisis. On the other hand, England and Germany are representative of a greater number of countries suffering from abnormal unemployment brought on by the post-war depression.

Russia seems to be in a unique position. Officials insist that there is no unemployment problem for them. With all human and material resources concentrated on the fulfilment of the five-year plan, the Government declares that a labor shortage is its chief problem.

Although the development of the modern economic system has benefited mankind as a whole by increasing the industrial output, by discovering new fields of enterprise, by inventing labor-saving machinery, and by raising wages materially, it has not eliminated the vital problem of unemployment. Today, few workers in any country are free from the fear of unemployment, and for this reason, the provision of reasonable security of employment for the majority of workers must be emphasized as the basis for any corrective action.

The effects of unemployment, and not the mere state of being unemployed, create the problems. A condition of unemployment is always disastrous for all who must bear the losses incurred. The individual worker suffers great hardship, industry is temporarily crippled, and the problem soon reaches national proportions.

Effects on Labor

The effects upon labor are the most obvious. Irregularity of employment tends to lower the workers' standard of living, because this standard must be controlled by average earnings and not by wages received during employed periods. The standard of living affects not only the efficiency of the worker to a marked degree, but it also decides whether the wife shall go to work and whether it will be necessary for the children to leave school at an early age to take up low-paying jobs with little or no chance of advancement.

Of the immediate effects of a lowered standard of living, congestion and bad housing, the reduction of diet and the resulting malnutrition and illness are the most serious. Another important but less easily measured effect is the lowered morale of the unemployed worker and of his family. Loss of self-confidence by the worker in his ability to hold his job often leads to lack of mental balance, development of bad habits, and perhaps even to the fostering of bitterness against government and social institutions in general.

After a long period of unemployment, some workers are no longer capable of sustained application to any job and so, because work habits have been destroyed, the unemployed become unemployable.¹

Effects on Industry

Concurrent with any period of general unemployment is the

1 Philip Klein--"The Burden of Unemployment" p.37

gradual decline in consumer demand. Few industries report increased profits during years of depression. Loss of income to labor means decreased purchasing power by the general public. The unemployed either must fall back on their savings or buy on credit. In either case, they buy only what is absolutely necessary. During the winter months, when unemployment is always at its height, spring buying is curtailed, thus creating a slack condition in manufacturing industries which in turn causes more unemployment.

This falling off in consumer demand has a direct effect on the business demand for raw materials, current supplies, and equipment used in making consumers' goods. When no demand exists for its product, an industry either closes entirely or operates with a skeleton force. Capital which is ordinarily productive is forced to be idle. This contraction in the volume of trade reduces profits and spreads discouragement and panic among industrial leaders.

National Effects

The drain of unemployment on the national wealth of the United States is enormous. During the year 1930, when unemployment prevailed in every section, the total wealth of the country fell 8.9 per cent from that of 1929. In 1928 the total national wealth was \$361,800,000,000 but in 1930 it dropped to \$329,700,000,000.¹

¹ Boston Post, January 25, 1932--Report of National Industrial Conference Board.

The tremendous drain on the national wealth is shown also by a 16.4 per cent drop in 1930 in the personal income of all individuals in the country. This income, in 1930, amounted to \$71,000,000,000, but in 1929 it was \$14,000,000,000 greater or \$85,000,000,000.

Income tax receipts, one source of revenue for the government, are always less when unemployment exists. In 1931, with rates 1 per cent higher than in the previous year, income tax receipts dropped 42.4 per cent from the 1930 total of \$2,332,968,960 to \$1,368,053,467.¹

Nor is this national loss confined to decreased income for the government. The public is made to bear its share by supporting hospitals, by providing emergency work, and by contributing to the cost of special relief measures of charity organizations and of municipalities.

NEED FOR GOVERNMENT ACTION

The need for government action to alleviate the ill effects of unemployment has become urgent. Particularly among the working classes, the demand for protection is increasing. The present depression has been of unusual duration and as a result, workers' incomes, at all times inadequate, are now being further diminished through wage reductions and part-time employment. The unskilled workers, who are least able to bear

¹ Boston Globe, January 26, 1932--"Internal Revenue Receipts for 1931"

reductions, are always the first to have wages cut.

For many years the unemployed were not encouraged to advertise their troubles and this unsympathetic attitude of the public prohibited any united action for recognition of the plight of the jobless. For the reason that urban population increased during war years, more workers are congregated in large communities than ever before. They have banded together in various types of labor organizations and by united effort have succeeded in impressing the public with the necessity of adequate protection.

Division of Labor

The increased division of labor has resulted in an economic order in which more people work for wages. The skilled and semi-skilled workers are no longer more secure in employment than the unskilled. Indeed, they may be among the first to be released. Constant application of their skill in some routine job makes for a high degree of skill in that particular line of work, but does not insure steady employment.

Labor-Saving Machines

The rapid growth in the use of labor saving machines has created new demands for state control and legislation. Advances in civilization must be accompanied by improved machinery, but sometimes such changes come so rapidly that more labor is displaced than can be absorbed by other industries. As machinery and inventions have displaced many workers, a new problem of labor adjustments has been created which neither state nor industry can ignore.

Recognition of Social Responsibility

There has been a steady, if gradual, growth of the sense of public responsibility for the care of the unemployed. A community may treat its defectives unwisely without more than local inconvenience. It cannot treat the question of unemployment unwisely; its policy in regard to this problem affects too great a majority of its citizens.

Fortunately, with the development of a sense of public responsibility, there has been a growth of the understanding of the vastness of the problem and of the fact that preventive action must develop slowly in order to insure the adoption of only sound and effective plans.

SUMMARY

The present economic condition of the world has aroused deep concern among those interested in the economic and social progress of the United States.

Contrary to general opinion, evidence of the existence of unemployment goes back to an early date. The suffering caused by unemployment has been recognized by most European countries, and is appreciated now in the United States. American thought has advanced from considering the problem as one of personal incapacity to recognizing it as the inevitable accompaniment of progress.

The problem is international, and the effects of involuntary idleness are disastrous upon workers, industry, and the nation.

The sense of social responsibility has developed gradually, and now intervention by the government is urged in many quarters. However, in view of the extent of the problem, only sound measures should be adopted.

CHAPTER II

EXTENT OF UNEMPLOYMENT

The exact number of persons in the United States who are involuntarily idle is uncertain, because of the inadequacy of labor statistics. The United States Bureau of Labor Statistics, for a number of years, has collected figures on the volume of employment in selected industries which indicate the general trend of employment in certain industries, but are not representative of industry as a whole. Few reliable figures on the number of unemployed have ever been collected, and at the present time all statistics issued by the Department of Labor are based on employment rather than on unemployment.

In 1930, Congress passed the Wagner Bill which directed the Bureau of Labor Statistics to collect and publish at least once a month complete statistics of the volume of and changes in employment, as indicated by the number of persons employed, the total wages paid, and the total hours of employment in the manufacturing, mining, building, agricultural, transportation, communication and distributive industries. However, the appropriation for this work was eliminated from the budget.¹ Without increased financial support, the Bureau has been unable to give more adequate statistics than it formerly issued.

Although no accurate statistics as to the number of unem-

¹ American Legislation Review, November 1930 p. 249

ployed can be given, the gravity of the situation is shown by other factors.

United States Census of April 1930

In this census,¹ 48,832,589 persons were classified as gainful workers. 2,429,062 persons, or nearly five per cent of the working population, were found to be wholly unemployed. These persons were willing to work, but were unable to obtain employment. In addition to this number many more were working on a part-time basis, but although their earnings were far below normal, they could not be counted as "unemployed." 758,585 persons were temporarily laid off without pay, but did not consider themselves unemployed, for the reason that they believed they would soon be called back to work. The greatest measure of unemployment existed in the building trades where 394,500 people, or one in every six, were unemployed.

This census represented an average of conditions throughout the whole country. The percentage of unemployment ran much higher in cities than in rural communities.

Census of January 1931

Conditions grew so much worse during the latter part of 1930, that a special census² was taken in January 1931, in nineteen of the largest cities. Cities in all parts of the country were selected and the census was carried out in Birmingham, Boston, Buffalo, Chicago, Cleveland, Dayton,

Denver, Detroit, Duluth, Houston, Los Angeles, Minneapolis,

1 American Legistation Review, June 1930 pp. 124-125

2 Monthly Labor Review, April 1931 pp. 35-36

New Orleans, New York, Philadelphia, Pittsburgh, St. Louis, San Francisco, and Seattle.

Unemployment reaches the peak in January each year. Before the World War, the average number of unemployed in January was usually about 1,500,000 persons. The serious change in employment conditions may be noted by the fact that the results of the special census caused the Department of Commerce to estimate that approximately 6,050,000 people were involuntarily employed in January 1931.

Bureau of Labor Statistics

This Bureau publishes monthly the percentage of employment in selected manufacturing industries, based on the monthly average of 1926. Per cents of changes are based upon the returns made by 14,054 establishments in 54 of the principal manufacturing industries. Each establishment obtains its index number by a direct comparison of employees with the number employed in 1926. From the index numbers of individual establishments in every industry, an index of each industry is computed, and the general index of employment is obtained by weighting the index numbers of the separate industries according to their relative importance.

Since the acceleration of unemployment is even more menacing than the total number of jobless persons, a study of the index numbers over a period of time provides startling information. The table¹ on the next page gives the indexes of

¹ "Trend of Employment and Turnover" United States Department of Labor, October 1931 p. 3

employment for every month from January 1923 to December 1931, and also shows the average index for each of these years.

Table 2

General Indexes of Employment in Manufacturing
Industries, January 1923 to December 1931

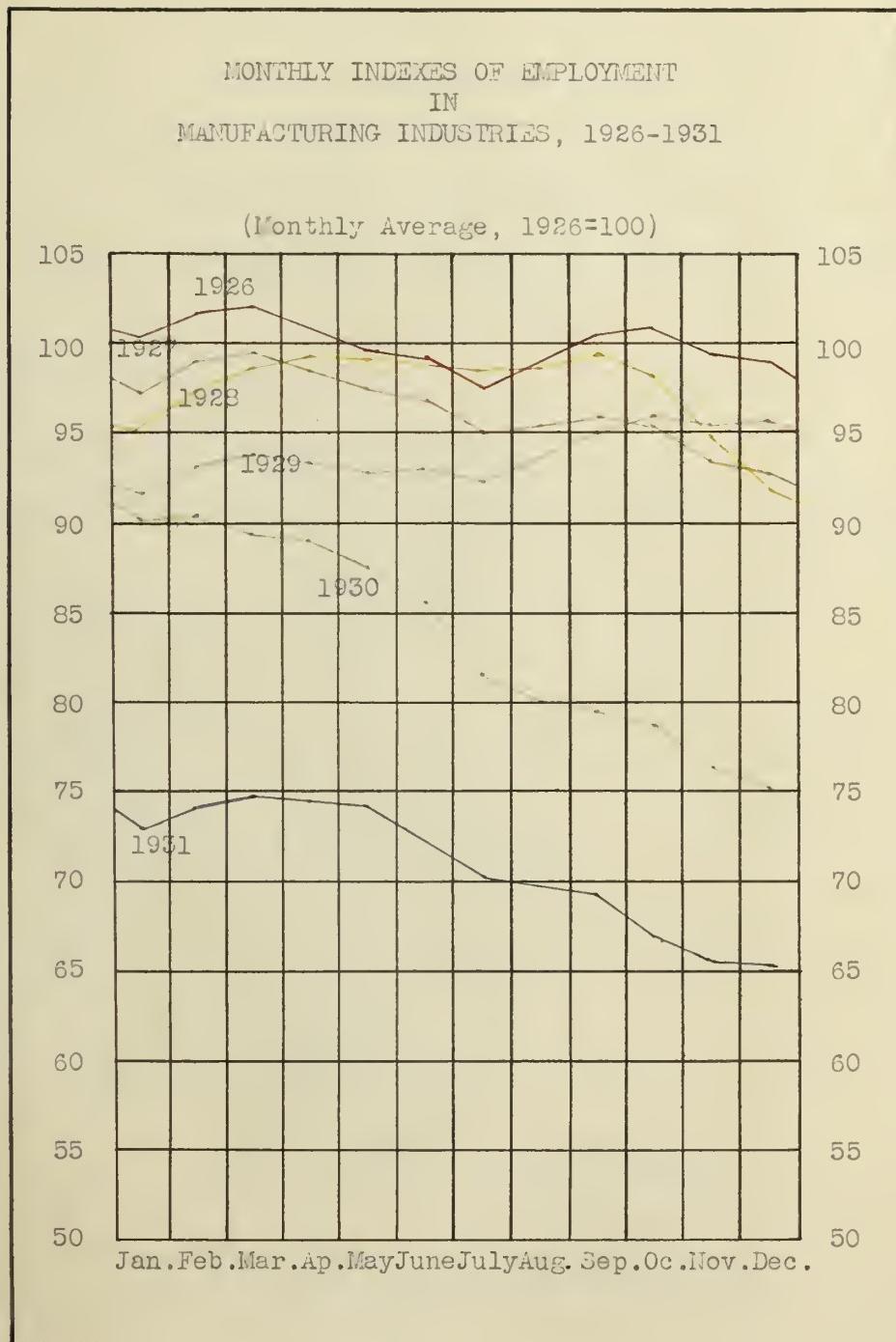
(Monthly average, 1926=100)

Month	1923	1924	1925	1926	1927	1928	1929	1930	1931
Jan.	106.6	103.8	97.9	100.4	97.3	91.6	95.2	90.2	73.1
Feb.	108.4	105.1	99.7	101.5	99.0	93.0	97.4	90.3	74.1
Mar.	110.8	104.9	100.4	102.0	99.5	93.7	98.6	89.8	74.8
Apr.	110.8	102.8	100.2	101.0	98.6	93.3	99.1	89.1	74.5
May	110.8	98.8	98.9	99.8	97.6	93.0	99.2	87.7	74.1
June	110.9	95.6	98.0	99.3	97.0	93.1	98.8	85.5	72.2
July	109.2	92.3	97.2	97.7	95.0	92.2	98.2	81.6	70.4
Aug.	108.5	92.5	97.8	98.7	95.1	93.6	98.6	79.9	70.0
Sept.	108.6	94.3	98.9	100.3	95.8	95.0	99.3	79.7	69.6
Oct.	108.7	95.6	100.4	99.5	95.3	95.9	98.3	78.6	67.3
Nov.	107.4	95.5	100.7	99.3	93.5	94.4	94.8	76.5	65.4
Dec.	105.4	97.3	100.8	99.5	92.6	95.5	91.9	75.1	65.3
Ave.	108.8	98.3	99.2	100.0	96.4	93.8	97.5	83.7	70.9

In comparing the percentages, a steady downward trend in employment is noted. In December 1931, the index of employment was 65.3 as compared with 67.3 per cent for October and 70.0 per cent for August. A comparison over a longer period is even more alarming. Employment in December was approximately 7 per cent below the June index of 72.2, 9.8 per cent below the number for December 1930, and 26.6 per cent below the 98.3 per cent recorded in October 1929. The yearly average has declined steadily from the basic year, 1926, to 70.9 per cent in 1931, a decrease of about 29 per cent.

The graph¹ on the next page illustrates effectively how rapidly the monthly index has fallen since the year 1926, and how far below normal employment conditions are at the present time.

¹ Monthly Labor Review, December 1931 p. 214



Estimates by Labor Leaders

At various times during the last few years, President Green of the American Federation of Labor has given his estimate of the number of unemployed persons in the United States. At least 6,000,000 habitually employed persons¹ were unemployed in January 1931, according to his estimate based on the special census taken during that month. In January 1932, he declared that approximately 8,000,000 competent persons² were unable to obtain work.

Increased Demand for Welfare Funds

Many cities are finding that the demands upon welfare funds have increased so tremendously that these funds can no longer be provided entirely by appropriation from public monies. Rochester, New York, spent \$2,807,992 during 1931 for unemployment relief,³ which represented a per capita expenditure of \$8.56. Boston ranked second in welfare costs, with a per capita expenditure of \$7.30. Several cities have considered it advisable this year to raise part of the money by public subscription, rather than to set tax rates high enough to cover the entire cost of this relief work.

MAJOR CAUSES OF UNEMPLOYMENT

The fundamental causes of unemployment cannot be definitely segregated and analyzed. They are in most instances

1 Boston Post, January 9, 1932 William H. Green--
"8,000,000 Workless"

2 The Annals, March 1931 Dr. Charles E. Persons--"Census Reports"

3 Boston Post, January 25, 1932--"\$3,000,000 Drive On in Boston"

composite, and for this reason, the importance of any single element is uncertain. The problem of unemployment is properly the problem of the maladjustment of the supply of and the demand for labor. Classification of men according to the causes of their unemployment is impossible, but causes of types of unemployment are more easily determined. Causes are commonly designated as seasonal, cyclical, technological, and personal.

Seasonal Unemployment

Seasonal unemployment arises out of the disturbing influences occasioned by fluctuations in climatic conditions and by the influence of style upon the purchasing habits of consumers. This type occurs in businesses that are more active at certain seasons of the year than at others, so that a considerable number of workers are laid off in slack seasons. Seasonal causes are responsible for the major portion of industrial unemployment in the United States.¹ Some industries show a greater variation than others, but few are free from seasonal influence.

Seasonal variations are particularly marked in agriculture and allied industries such as canning. This type of unemployment also occurs regularly in clothing industries and in the building trades. Manufacturing industries are especially sensitive to seasonal influences, the maximum peak of employment being attained in September and the minimum in January each year.

¹ United States Chamber of Commerce--"Employment Regularization in the United States of America" p. 14

Seasonal fluctuation is a cause of unemployment entirely independent of the wishes of the individual workman. It does not always involve acute distress. Instead of a large number of workers being discharged, during dull seasons, working hours may be shortened, so that the loss is spread over all the men employed. Many seasonal workers, when temporarily out of employment in their own industry, find a subsidiary occupation in some other industry which is then busy. However, the use of subsidiary trades in slack seasons is limited to low-skilled or unskilled workers.

Seasonal variation is to some extent provided for in higher wages. It is more a question of adequate wages than of unemployment.

Cyclical Unemployment

Cyclical unemployment results from periods of recurring economic depressions and is the extreme type prevalent in hard times. It makes its appearance during the downward swing of the business cycle and in a period of severe and prolonged business depression becomes the prevalent type to which all other causes are subsidiary.

Depressions dry up the sources of demand for labor. For the reason that markets are stagnant, employers cannot keep their operations going at the normal pace. With production reduced, either employees must be laid off or the greatly reduced amount of work still available divided among all the workers on a part-time basis. In either case, wages of the whole body of wage-earners are greatly diminished. During

the 1929-1931 depression, according to the Bureau of Labor statistics, pay rolls in manufacturing industries declined by 34.3 per cent, but the number of workers fell off only 24 per cent.¹

The effects of depressions on the volume of unemployment in manufacturing is inversely proportionate to the size of the establishment. The President's Committee on Unemployment² found that establishments employing one hundred employees suffered four times as much from unemployment as did establishments with twenty workers or less. Establishments employing more than one hundred workers suffered a still greater decline in the volume of employment. An indication of the same trend is expressed in the report of the President's Emergency Committee³ in the fall of 1930: 75 per cent of those establishments with less than one thousand workers reported an unemployment problem important enough to force them to lay off employees; 86 per cent of the companies employing from one thousand to five thousand workers reported a similar problem; while 96 per cent of companies employing over five thousand workers reported that they were compelled to release employees.

Cyclical fluctuation of industrial activity clearly has nothing to do with the wishes of the men employed nor is it within the control of the individual employers. It is not

1 United States Department of Labor--"Trend of Employment and Turnover" October 1931 p. 7

2 United States Chamber of Commerce--"Employment Regularization in the United States of America" p. 18

3 Harry Laidler--"Unemployment and Its Remedies" p. 12

limited to particular trades. The outward and visible signs of an industrial depression are a high unemployment percentage, falling wages, and decreased profits. It is difficult to isolate the causes of business depressions: war, undue expansion, and excessive speculation are factors affecting the character of succeeding depressions.

Technological Unemployment

Technological unemployment is caused by the displacement of men by machines, new processes, or the development of new products. The accelerated rate of technological advancement during recent years has increased public concern over the fact that workers are being rapidly displaced by machinery. Labor requirements in practically every line of productive enterprises have decreased, in some cases very materially. For instance, the use of farm machinery has increased the yearly output in agriculture 28 per cent since 1910, with a reduction of 6 per cent in the labor force.¹ In the automobile industry, it is estimated that 66 men out of every 100 workers have been displaced by machines during the past 16 years. In the clothing industry one machine displaces 25 girls. Technological unemployment, through the increased adoption of office machinery, also affects many clerical workers.

There are no statistics to show the actual importance of this type of unemployment. During prosperous years these work-

1 Thomas F. Tarbell--"Unemployment Insurance" Journal of American Insurance, June 1931 p. 26

ers have been so rapidly absorbed into other lines of work in the same industry or into other expanding industries that the problem did not attract attention.

Temporary or permanent displacements of industrial workers by technological improvements necessitate occupational shifts for large groups of wage earners, which is essentially a problem of vocational readjustment.

Causes of Personal Nature

Unemployment due to industrial disputes or to personal limitations constitute social rather than industrial problems. Unemployment arising out of industrial disputes is usually of only local interest and is distinctly a problem to be solved by the parties involved. Personal limitations, such as poor training, ineptitude, limited qualifications, disability, or old age, tend to make the person unemployable rather than unemployed.

Constant Minimum Volume of Unemployment

A surplus of wage-earners is always found in some lines of industry. Lack of mobility on the part of labor is largely responsible for this continuous surplus. A chronic excess of labor is undesirable, yet it exists in many occupations. However great the demand for labor may be, the supply always tends, not to coincide with it but to exceed it. The rule is for each trade to have more men than are called for even at the busiest moment. The minimum volume of unemployment in the United States in the past twelve years has never fallen below

1,000,000 persons.¹ This permanent maintenance of a labor reserve results in the problem of irregular employment for many workers rather than absolute unemployment for a few.

Definition of Unemployment

In attempting to define unemployment, causes of a personal nature must be excluded. Any lack of employment due to the acts of an individual or to his defaults must be disregarded. Such problems come under the scope of social problems and industry cannot possibly be expected to solve them.

In this report, a worker is considered to be unemployed when he is able and willing to work in his own trade at current wages, but is unable to find employment because of lack of work.

SUMMARY

Comprehensive statistics on the extent of unemployment are lacking, but other factors are indicative of the extent of the problem. The United States Census of 1930 and the special census of 1931 revealed widespread unemployment. The Bureau of Labor statistics show that the number of persons in employment has fallen rapidly since 1926. That many persons are in need is seen by the increased demands upon welfare funds.

The major causes of unemployment are: seasonal, occurring

1 United States Chamber of Commerce--"Employment Regularization in the United States of America" p. 28

regularly during certain seasons of the year; cyclical, resulting from business fluctuations; technological, resulting from basic changes in production methods. Causes of a personal nature are excluded, and only persons capable of working but unable to find work are considered "unemployed."

PART II

REMEDIES FOR UNEMPLOYMENT

CHAPTER III

METHODS OF RELIEF OTHER THAN INSURANCE

The great suffering in which unemployment results has been alleviated to some measure at public expense both by permanent and temporary provisions, and also by the adoption of regularization programs by industrial leaders.

CHARITY

European countries have come to the conclusion that the relief of the involuntarily unemployed should not be considered charity. To give only such relief as will provide a meager living for the unemployed is to make their situation much less desirable than that of the independent laborer of the lowest class. These countries consider that the unemployed are not responsible for their need, that the problem is a social one, and that the state should provide relief on a more dignified basis.

In the United States, charity is still the only means of relief for the majority of unemployed persons. After savings and credit have been exhausted, they must appeal to either private organizations or to the local welfare boards. In either case, charity is undesirable, both in purpose and in effects. Such appeals are contrary to American ideals and respectable persons, who want work and not charity, will endure extreme suffering before asking for aid. The amount of money available for relief work must be spread over so many

recipients that the amount given to any individual is infinitesimal. Charitable organizations are not capable of and should not be expected to bear the total cost of relieving the suffering of the able-bodied unemployed.

PUBLIC WORKS

The conception that public works may be expanded when private industry is slack has gained acceptance recently. In earlier years, public works were looked upon merely as a form of relief which would be less humiliating than pure charity. During periods of unemployment, American cities in co-operation with charitable organizations provided work on a large scale on municipal projects.

The use of public works to combat unemployment began to break away from its association with charity early in this century. Since that time several states, including Idaho, New Jersey, California, Pennsylvania, and Massachusetts have passed bills requiring state departments to make forecasts for extension of public works especially adapted to supply increased opportunities for employment during industrial depressions.¹

The recognition of this possibility for relieving the unemployment situation has led many to advocate the creation of reserves of public works. Governments are urged to contract the volume of public construction during prosperous years and to expand these works during slack periods from the reserves previously set aside.

¹ Bryce M. Stewart--"Unemployment Benefits in the United States" p. 53

Recent developments in the construction of public works favor such a program. In the post-war period there have been surveys of actual needs upon which careful long-time planning of construction has been based. Long-ranged planning of public works is necessary since unpremeditated emergency programs are wasteful.

Public Works Program During 1929-1931

In 1930, the federal government increased its expenditures for public works 20 per cent over 1929.¹ An extra \$116,000,000 was appropriated for 1931 construction, but on account of the time required to make engineering and legal preparations for the work, this extra construction did not meet the needs of the situation.

A start was made in long-ranged planning of public works by the passage of the Wagner bill in 1931. This bill provides for the creation of a Federal Stabilization Board whose duty shall be to notify the President from time to time of the trend of employment and the approach of periods of depression. Whenever the President shall decide that a depression is liable to exist within six months, he is requested to transmit to Congress such estimates as he deems advisable for emergency appropriations, to be expended upon public works. The appropriation is not to exceed \$150,000,000 in any one year, and is specifically confined to highway, river and harbor, flood con-

¹ Harry Laidler--"Unemployment and Its Remedies" pp. 34-37

trol, and public building projects. Every department engaged in eligible work must prepare and keep plans in readiness. The director of the budget is required to consolidate these plans and make recommendations covering the next six years.

State and municipal governments did practically nothing to increase public works. Such expenditures, in 1930, were increased only 4 per cent over 1929.

Problems Involved

It is frequently difficult to postpone public construction until dull times. The bulk of expenditures is used in the construction of schools, and prisons; in extending the means of transportation by building roads and subways; in providing adequate water supply and sewage systems. The facilities for all these purposes are so far below requirements, that authorities would hesitate to hold back the projects until a time of general unemployment.

Different localities will have varying amounts of unemployment and there will not be a direct correlation between the extent of unemployment and the need of public works.

Then, too, public construction requires only certain types of labor, while the unemployed are recruited from all industries. The cost of training these diverse types of workers would be prohibitive.

So much of the labor on public works is done by machinery,¹ that only a small proportion of the expenditure is actu-

¹ Bryce M. Stewart--"Unemployment Benefits in the United States" p. 54

ally paid out in wages.

An expanded program of public construction requires large purchases of tools and equipment which would be laid aside as soon as improved conditions necessitated a reduction in the volume of public works.

ASSURANCE OF EMPLOYMENT

American thought on unemployment has tended to place greater responsibility for regular operation upon individual managements. Experiments of employers have demonstrated that the management of every business can exert some measure of control over the factors which cause intermittent employment. Absolute stability of employment is impossible, but fluctuations in employment may be reduced to a minimum. The approach to the problem of employment regularization consists of the adoption by managements of general policies which promote comparative stability of operation and of employment security for individual workers.

Budgeting Sales and Production

The principal task of management is to control distribution. Co-ordination of manufacturing and sales activities can be secured only by the development of a systematic method of sales forecasting, upon which production schedules may be based.

A policy of equalized production schedules, based upon an annual sales forecast, has been adopted by the Packard

Motor Car Company.¹ Production is equalized by the establishment of monthly quotas based on the yearly forecast; and dealers are persuaded to take cars in advance of the time needed in order to eliminate extra storage expense.

That the application of uniform production is recognized by leaders as an important method of reducing seasonal variation is shown by the survey of the New York State Committee on Stabilization of Industry which reported that 59 out of 298 manufacturing establishments had adopted definite regularization programs.²

Manufacturing for Stock

Many companies whose products are too variable to permit the construction of accurate advance estimates of sales have reduced seasonal unemployment by manufacturing for stock. This practice has been utilized by medium-sized companies manufacturing diversified lines.

Simplification and Standardization

When the practice of manufacturing for stock is used, it has been found necessary to standardize the product and to concentrate upon a limited number of types and sizes. Elimination of excess varieties reduces the hazard to manufacturers and distributors of carrying in stock articles which are seldom demanded. When relatively few types are manufactured, a company can estimate far more accurately the volume of an-

1 Douglas & Director--"Problem of Unemployment" p. 86

2 United States Chamber of Commerce--"Employment Regularization in the United States" p. 40

ticipated sales.

Diversification of Products

After a satisfactory program of standardized stock items has been worked out, some companies have considered it advantageous to diversify their lines by adding side-lines or fillers. The Dennison Manufacturing Company has a sufficiently diversified line of products to insure capacity operation of its plant during the off-seasons of the principal articles.¹ In choosing a filler, care must be exercised to select an article not dissimilar from the regular product, in order that the working force may not encounter too much difficulty. Diversification is nothing more than the balancing of production and distribution operations by producing complementary lines having different periods of demand.

Extending Seasonal Markets

As an alternative to diversification of products, the practice of stimulating the purchase of products during off-seasons has found favor among many manufacturers. Building up of off-season markets may be accomplished by advertising and by aggressive sales promotion methods: by finding new uses for old products: and by expansion of markets into territories where weather and buying habits are different.

The extension of seasonal markets can never be a complete remedy for seasonal unemployment, but must be considered as

¹ United States Chamber of Commerce--"Employment Regularization in the United States" p. 42

supplementary to other regularization policies.

Training and Transfer of Employees

Inter-plant transfer of employees to avoid lay-offs in one department, while another department is hiring new employees, is a practice which has reduced fluctuations in employment. Transferring operatives to the same off-season work each time develops proficiency in a number of operations through actual practice. The existence within the plant of a reserve of trained employees, capable of performing diversified types of jobs, lessens the necessity of reducing the working force in certain departments during dull seasons.

Dismissal Wages

Dismissal wage systems are being maintained by a few companies. There is a growing sense of responsibility among a small group of employers for safeguarding the financial welfare of their working force when no suitable work can be found for them. Wider adoption of this policy would alleviate the hardship endured by the unemployed while they are trying to obtain other employment. If the worker is successful in finding employment immediately, the dismissal wage would compensate him to some extent for the almost certain reduction in wages. It might also tend to restrain employers from releasing a large body of workers whenever production must be curtailed to meet demand.

PRIVATE RELIEF MEASURES

There are three types of private unemployment plans in the United States which protect only a small percentage of the working population: benefits by trade unions, joint plans by employers and trade unions, and employer plans. The growth of private plans has proceeded slowly and along individual lines.

Trade-Union Plans

In times of business depression, practically all trade unions render emergency relief to their unemployed members. In April 1931, permanent unemployment-benefit plans were maintained by three international unions and by forty-five local unions. Approximately 35,000 members of American trade unions are entitled to participate in the benefits from the relief funds set up by contributions from workers' earnings.¹ This is less than 1 per cent of the total trade-union membership of 4,331,251 persons.

Joint Plans

A few plans provided by joint agreements between employers and trade unions have been established to ameliorate the condition of union members out of work. The majority of the plans are in industries manufacturing wearing apparel. Approximately 65,000 trade-union members, or slightly more than 1 1/2 per cent of the trade-union membership, are eligible to

1 United States Department of Labor--"Unemployment Benefits in the United States and Unemployment Insurance in Foreign Countries" pp. 7-19

unemployment benefits payable from these funds.

Since these plans are confined to selected industries, they have not relieved the general unemployment situation to any extent.

Employer Plans

There are in existence only fifteen company plans which vary widely in the provisions for unemployment compensation. The plans will eventually cover 116,000, but in April 1931, the estimated number of eligible employees was approximately 50,000.

The movement by industries, toward providing unemployment relief is so young, the number of plans is so small, and their coverage so limited, that the benefit accruing to the unemployed from this source at the present time is relatively insignificant.

SUMMARY

Charity is the oldest method of mitigating the suffering caused by unemployment and is still the principal form of relief in the United States. This method is undesirable, both in purpose and in its effects.

The possibility of relief by utilizing reserves of public works construction in dull times is widely advocated, but many problems are involved in the adoption of this policy.

That many industrial leaders believe the causes of unemployment are amenable to corrective treatment is evidenced by

the adoption by many leading concerns of regularization policies designed to stabilize production and to assure workers of security of employment.

Private relief measures protect only a small proportion of the working population: members of some of the trade unions are covered either by union benefit plans or by joint agreements between unions and employers; employees in a few private concerns are protected by company benefit plans.

The measures so far adopted in the United States, though constructive, have done little during the current depression to alleviate employment conditions.

CHAPTER IV

POSSIBILITY OF RELIEF BY INSURANCE

Since unemployment in many instances is not the fault of the individual and does affect society extensively, the possibility of insurance, as a means of lessening the evil results, is being stressed. The average worker is unable to provide for prolonged unemployment and he has no protection from this menace. At present the only two defenses which protect the unemployed worker are his savings and charity. The accumulation of sufficient savings is impossible and charity is humiliating. Some better way of caring for workers and their families must be found. Insurance is emphasized by many advocates as a practical method of stabilizing the income of workers; that is, while workmen are employed, pooled reserves will be built up out of which benefits will be paid to those who are unemployed through no fault of their own.

The only way in which a system of insurance, possibly the creation of employment reserves, can be generalized is by governmental action, state or federal, which will be mandatory upon industry. Such action would offer protection to a high percentage of workers and would also protect those leaders who have already adopted such plans from competitive pressure.

Lack of Individual Savings

Self-help, through individual savings, the obvious method of meeting unemployment, is rarely possible. The present rate

of wages for an industrial worker prohibits the accumulation of a reserve adequate to tide him over frequent periods of unemployment.

In 1926, a comparatively prosperous year, the average annual income of employed wage-earners in all industries in the United States was only \$1284.¹ The average wage of the unskilled worker was approximately \$1000, an amount totally inadequate to enable him to save any substantial amount for emergencies.

Other Methods Inadequate

Adoption of methods for combating unemployment has proceeded so slowly that very few employees are assured steady work, and the majority of workers are unprotected. Despite all efforts to decrease unemployment by stabilization of industry, little has been accomplished by these programs. Regularization policies, while providing full-time work for many employees, frequently force out of the industry some who are ordinarily employed on a part-time basis.

Provision for out-of-work benefits at present covers too small a proportion of the working population to be considered an adequate protection. Such plans are valuable both as experiments and to get the public mind interested in the subject, but it is an idle hope to expect that any considerable proportion of workers can find immediate protection under the

¹ Paul H. Douglas--"Real Wages in the United States" p. 391

voluntary plans now in existence. Experiments along this line during the past ten years have brought less than 1 per cent of the working population¹ within the scope of such plans. It is anticipated that individual employers will always be very reluctant to adopt insurance plans which would impose added expense on their businesses, and thus place them at a competitive disadvantage.

INSURING AGAINST UNEMPLOYMENT

Definition of Insurance

Insurance may be defined as "that agency which protects an individual against loss, by the payment, in the event of some definite occurrence resulting in a loss, of an agreed sum of money out of a systematically accumulated fund previously collected from or on account of a group of persons, of which such individual was a member. The contingency for which the individual is protected may be one which, so far as he is concerned, may never occur at all, or may be one which is bound to occur at some time, but of which the time of occurrence is unknown."²

Requisites for Application of Insurance to Unemployment

A loss, to be covered by insurance must be a loss which can, in some measure, be evaluated in money. Employment has

1 Douglas & Director--"Problem of Unemployment" p. 488

2 United States Chamber of Commerce--"Report of Committee on Continuity of Business and Employment" p. 31

a monetary value, so that as far as the worker is concerned, the risk of loss of income by unemployment comes within the definition of insurance. Opponents argue that there is not sufficient data by which rates of benefit may be determined. This assumption seems to be warranted, since the only sources of actuarial data are the records kept by the few individual employers who have experimented with unemployment-benefit plans.

The fact that there must be a loss is an important principle. This implies that each individual insured is employed and expects to continue in such employment. Insurance can care for only individuals who have lost their incomes and if it is extended to afford protection to those who are not normally employable, the plan ceases to be insurance. For this type of person, the problem is one of absence of income, and is a problem for poor relief. Insurance can properly be expected to protect only employable persons.

The probability of the occurrence of the contingency must be predictable. Since unemployment has occurred frequently in the past, it may be assumed that such periods will recur in the future. Unfortunately, all types of unemployment are not predictable. This is clearly demonstrated by the degree in which the number of unemployed in England and Germany exceeds the number anticipated by those who drafted the unemployment insurance laws.

The contingency must be one to which large numbers are exposed, but which is unlikely to affect simultaneously all the

insured persons. This requisite seems to apply to unemployment, for practically all wage-earners are exposed to the risk of loss of income. The loss is distributable, since it is extremely unlikely that the entire mass of wage-earners would be out of work at the same time.

The loss to be covered by insurance must be beyond the control of the insured. Able-bodied workers, willing to work but unable to secure employment cannot possibly be blamed for their position. More than this, the employer usually is not at fault. If demand for his product falls off, he must curtail expenses by reducing production which necessitates a smaller working force. It is generally conceded that the problem is a social rather than an industrial one and that the wishes of the individual workers have little to do with the situation.¹

Insurability of Specific Types of Unemployment

Since the difficulties of insuring the unemployment risk as a whole appear insurmountable, the causes of unemployment must be considered separately.

Two classes of unemployment, those caused by industrial disputes and personal incapacities, must be excluded from any program attempting to provide protection by insurance. The risk in these cases is of such character that it can never be covered by any type of insurance.

¹ Joseph L. Cohen--"Insurance Against Unemployment" p. 65

A study of the results of private plans indicates that insurance may be applied in protecting normally employed persons against seasonal unemployment. Seasonal industries alone operate under conditions favorable to an actuarial calculation of the risk.¹

The difficulties of applying insurance principles to protect workers against cyclical unemployment appear insuperable. Since depressions differ widely in their causes, severity, and duration, past experience does not afford a dependable basis of calculation for future emergencies. The depressional unemployment hazard has no limit either in extent or duration; it has no geographical boundary; it may involve millions of workers. This type is the most far-reaching and causes more widespread suffering than any other type. Loss from long protracted unemployment due to continued depression could never be relieved by insurance alone. No single insurance fund could ever set up a reserve adequate to cover such an indeterminate risk. Other sources of relief would have to be utilized or the plan would degenerate to a charitable or relief basis.

Technological unemployment, caused by changes in methods or facilities, does not constitute an insurable risk at present. In the past, opportunities have been offered in other occupations for the displaced workers. No determination of this risk has ever been attempted. The extent of this type

¹ National Industrial Conference Board--"Unemployment Benefits and Insurance" p.6

of unemployment in the future is problematical. Unemployment benefits, paid for a short time, would be of no permanent assistance. The availability of such benefits might actually be an obstacle to the individual, by tending to suppress the desire or necessity of the recipient to fit himself for other work.

Importance of Accumulating Fund

The most important factor in the possibility of relief by insurance is the accrual of a sufficient reserve to meet potential demands. Benefits paid on occurrence of a loss must come from funds accumulated prior to the loss by collections from the individuals insured. While insurance collects and distributes funds, it cannot create assets immediately available for the payment of benefits. When an insurance scheme is established, payment of benefits cannot begin immediately, but must be deferred until such time as a substantial reserve has accumulated.

SUMMARY

Since the majority of the unemployed have not been able to accumulate sufficient savings to enable them to get through an idle period without help, and since other constructive measures by industry have had little effect, some other expedient must be practiced.

Some system of insurance against unemployment is advocated by many, but it is essential that such schemes fulfill insur-

ance requirements. The types of unemployment meet these requirements in varying degrees.

In any system, sufficient time must be allowed for a fund to accumulate to a substantial amount before benefits are paid.

PART III

EXPERIMENTS IN UNEMPLOYMENT INSURANCE

BY

FOREIGN COUNTRIES

CHAPTER V

PROGRESS OF FOREIGN PUBLIC UNEMPLOYMENT INSURANCE PLANS

Many European countries have attempted to deal with unemployment as well as with the other social risks, accident, sickness, and old age, by means of public insurance systems which have developed from private group plans. One of the early steps in the direction of unemployment insurance was started in the Belgian town of Ghent in 1901. This scheme is regarded as the originator of the unemployment insurance movement, for the reason that its principle was adopted rapidly by other European countries. With slight modifications, it was the basis of all early experiments with public insurance against unemployment.

THE GHENT PLAN

The characteristic feature of this system was a direct public subsidy either to workmen's organizations, mainly trade unions which were already making some provision for unemployment relief, or to individuals who offered satisfactory evidence that they had saved in anticipation of possible unemployment. The plan was developed as the result of a study authorized by the city council of Ghent in 1898. In 1901 the plan was undertaken for a three year trial, and was adopted as a permanent institution in 1904.¹ Compulsory insurance was not

¹ National Industrial Conference Board--"Unemployment Insurance in Theory and Practice" pp. 25-34

regarded as practicable by the investigating committee who felt that the best means of approach was to select organizations of workers that had already determined an average risk and were providing for it, or that could get the necessary actuarial data.

Coverage

The original plan in Ghent included all members of trade unions or of any other organizations that made definite provision for the payment of unemployment benefits. Adults who could prove that they had saved for the contingency of unemployment were entitled to a similar subsidy.

Contributions

The plan provided for payments from public funds to match those made by qualified unions. The amount paid by the city was not to be more than that paid by the union, or to exceed a specified daily amount. Most of the unions required that members belong to the union for a definite period of time, such as six months or a year, before they should be entitled to draw benefits.

Benefits

A member was not allowed to receive benefits from the subsidy for more than sixty days in a year, but the unions often paid benefits from their own funds for a longer time.

Benefits were paid only for unemployment due to lack of work and were not given for unemployment caused by industrial disputes or for personal reasons. To qualify for benefits, a

union member was required to report at the local labor exchange on his first day of unemployment.

Administration

The fund was administered by a committee appointed for a three year term by the city council. At the monthly committee meeting allowances for the next month were determined, based on the amount of funds available. The municipality paid for the entire cost of administering the funds.

This system of meeting the unemployment situation by granting aid to those who helped themselves became so popular that in 1908 the national government of Belgium began to grant similar subsidies to local funds.

General Experience

The Ghent system is considered the simplest possible unemployment insurance plan, in that it gives local societies a direct interest in the state subsidized fund. Other advantages are the uniform classification of the risks of unemployment and the regulation of contributions according to the time lost by those whose average loss is approximately identical.

In practice, however, the weakness of the Ghent system was evident. The success of the plan is dependent on the co-operation of trade unions. Only members of trade unions, representing a small proportion of the working population, are covered. Unorganized workmen usually need unemployment relief quite as much as union members but, under the provisions of the Ghent plan, are not entitled to benefits.

This system gives little inducement to industry to stabilize production and distribution so as to regularize employment. The employer as a factor in the unemployment situation is left out entirely.

Because the Ghent system failed to provide adequate protection for large bodies of workers, the formation of public insurance schemes was the next step in the development of insurance against unemployment.

COMPARISON OF PUBLIC INSURANCE PLANS

Public unemployment insurance has been established by legislative enactment in eighteen foreign countries.¹ In sixteen countries, the systems are in operation, but in the other two, Luxemburg and Spain, the plans have not as yet been put into effect. The state plans fall into two classes, usually distinguished as "compulsory" and "voluntary." Compulsory systems are those under which unemployment insurance according to prescribed conditions is obligatory for designated classes. Voluntary systems follow the plan of the Ghent system wherein trade unions having insurance plans are encouraged and subsidized by the state, but the establishment of such unemployment-benefit plans is not obligatory. The difference is one of degree rather than kind, since there is a marked tendency for trade-union funds which began as voluntary institutions to become compulsory.

¹ United States Department of Labor--"Unemployment Benefits in the United States and Unemployment Insurance in Foreign Countries" pp. 177-178

The distribution of the eighteen countries in regard to type of plan, date of enactment, and coverage is as follows:

<u>Compulsory systems</u>	<u>Established</u>	<u>Coverage</u>
Australia (Queensland)	1922	137,000
Austria	1920	1,300,000
Bulgaria	1925	287,000
Germany	1927	18,200,000
Great Britain	1911	12,094,000
Irish Free State	1920	284,000
Italy	1919	2,600,000
Luxemburg	1921	-----
Poland	1924	10,000,000

Voluntary systems

Belgium	1920	638,000
Czechoslovakia	1921	1,300,000
Denmark	1927	277,000
Finland	1917	3,500
France	1905	165,000
Netherlands	1916	391,000
Norway	1915	36,000
Spain	1931	-----
Switzerland	1924	230,000

There are wide differences in the foreign insurance systems. They differ among themselves on practically all important points; coverage, methods of contribution, provision for benefits, and methods of administration. They are alike in objective only; that is, the relief of unemployment distress through some form of insurance.

Coverage

Under all plans whether compulsory or voluntary, the general intent seems to be to cover the wage-earners against the risk of unemployment; but this is by no means accomplished, because many groups are excluded from participation. In all of the compulsory systems, certain classes of workers are excluded. As a rule, compulsory plans do not include protection for agri-

cultural workers, employees in small establishments, independent workers, domestic servants and seasonal workers. In the voluntary systems nowhere near all the eligible workers have taken advantage of the permission to join benefit plans.

Method of Financing

All unemployment systems provide for the payment of regular benefits according to a fixed schedule as to amount and duration. Several systems provide for special emergency allowances. The distinction must also be made between regular and emergency contributions. All countries having compulsory schemes require contributions from employer, employee, and state, except in Italy, where the State is exempt. Countries having voluntary schemes include contributions from the employee and the state. The employer does not participate, except in Denmark where he must contribute to a special reserve fund.

Regular Contributions

The employers, the insured workers, and the public contribute in Australia, Bulgaria, Denmark, Great Britain, Irish Free State, Luxemburg, Poland, and Switzerland. The amount of regular contribution is based on a percentage of wages or salary in Austria, Germany, Italy, and Poland. Flat or fixed rates are established in Belgium, Bulgaria, Australia, Great Britain, and the Irish Free State. Sums are contributed according to actual benefit expenditures in Czechoslovakia, Denmark, Finland and France. Equal contributions are made by the insured workers, employers, and the public in Bulgaria, Luxem-

burg, Norway, and Australia; and by the insured workers and employers in Austria, Germany, and Italy.

Emergency Contributions

Such funds are provided in all systems except Australia, Bulgaria, Finland, Irish Free State, Italy, and Luxemburg. In most of the countries, the public pays the emergency contributions, but if emergency benefits are paid out of the regular insurance funds, then any shortage is made up out of the public treasury.

Definition of Unemployment

The several laws set forth varying definitions but all are agreed that three major factors, ability to work, willingness to work, and inability to find work, are involved. All systems agree that benefits are not to be paid to workers involved in industrial disputes or out of work because of personal limitations.

Conditions for Receipt of Benefit

All systems demand that the applicant shall have been insured for a specified length of time; which means that he shall have been employed and shall have contributed to the insurance fund. A waiting period between loss of employment and the beginning of benefit payments is also required.

Amount and Duration of Regular Benefits

The outstanding difference in the plans seems to be the nature and extent of additional benefits for children and other

dependents. In some countries the benefits are fixed as percentages of wages: Austria, up to 80 per cent; Belgium, up to 75 per cent; Czechoslovakia, two-thirds; Denmark, two-thirds; Germany, up to 80 per cent in the lowest wage classes and up to 60 per cent in the highest classes: Luxemburg, up to 50 per cent; Norway, up to 50 per cent; and Poland, up to 55 per cent.

In other countries, flat rates are established: in Bulgaria, benefits are at the daily rate of 12 cents to a family head, and 7 cents to all others; in France, the State subsidy may amount to 63 cents daily, based on 34 cents for the insured, with an additional 10 cents for each dependent; in Switzerland, the benefits range from \$1.16 to \$1.35 a day.

Benefits at flat rates, but graduated according to sex, age, and family conditions are paid in Great Britain, ranging from \$1.22 to \$4.14 weekly for regular benefits, and 24 cents for each dependent; in the Irish Free State and in Australia, the amount varies for individual requirements.

All countries except Great Britain place a definite limit upon duration of regular insurance benefit payments, ranging from the limit of 50 days in Belgium to a period of six months in Poland.

Amount and Duration of Emergency Benefit

The legal provisions regarding emergency benefits are less definite and rigid than those relating to the regular benefits. Much is left to the discretion of local and relief authorities. Most of the countries do not specify conditions other than that

the recipient must be unemployed and in actual need. In some cases, emergency benefits are paid to workers who have not been insured. However, in some countries, Great Britain for instance, emergency benefits are paid only to those who have paid a specified number of contributions prior to their claim for relief.

In the majority of countries the amount of emergency benefit is not specified, but is left to the discretion of the local public authorities.

A number of countries set a definite limit to the duration of emergency benefits. This is done in Austria, one year; Belgium, 30 days; Czechoslovakia, 13 weeks; Denmark, 70 days; France, 120 days; Germany, 45 weeks; and in the Netherlands, 24 weeks. The other countries have no stipulated limit.

Administration

In a few countries, notably Germany, governmental machinery has been devised to handle the unemployment insurance plan. Usually, however, the existing machinery, especially that established for other forms of social insurance, has been adapted. In some countries unemployment insurance is inseparably a part of other forms of social insurance.

The compulsory systems accomplish local administration through a series of district offices or labor exchanges. There is a central administration office to which all local offices are responsible.

Countries with voluntary plans delegate the details of administration to trade unions, but prescribe certain conditions which the organizations must meet in order to receive

public subsidies. Voluntary systems have a central governmental administration, but as a rule have no district offices.

A special system of courts of appeal is usually established within the insurance system for the adjustment of grievances and disputes.

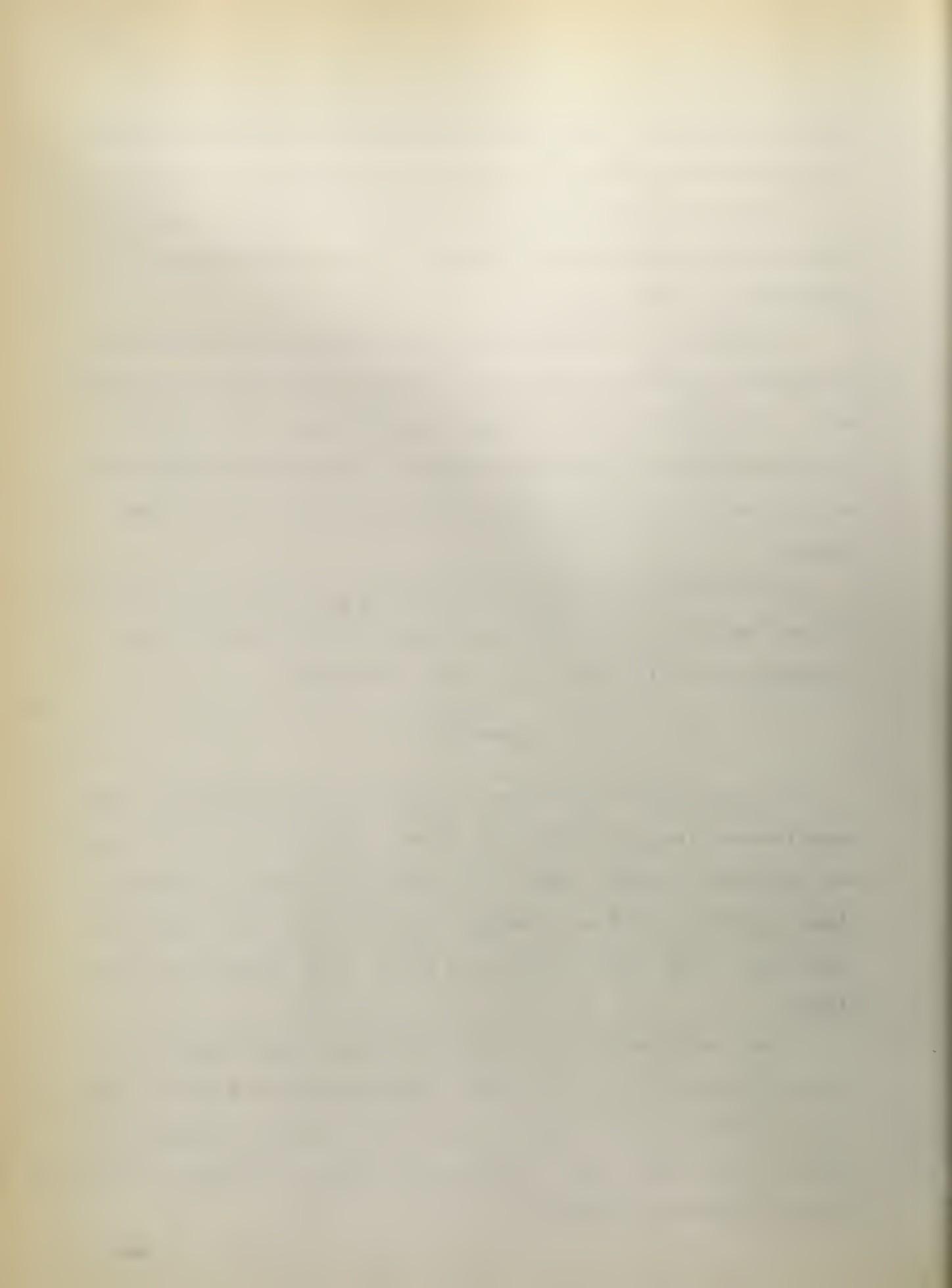
Legislation on unemployment is a comparatively recent development, only two systems being established before the World War. As a result of this newness, practically all countries recognize that the present systems are more or less experimental and subject to whatever changes peculiar conditions may demand.

Many of the plans are comparatively unknown in the United States, but those of England and Germany have attracted considerable attention during the last few years.

SUMMARY

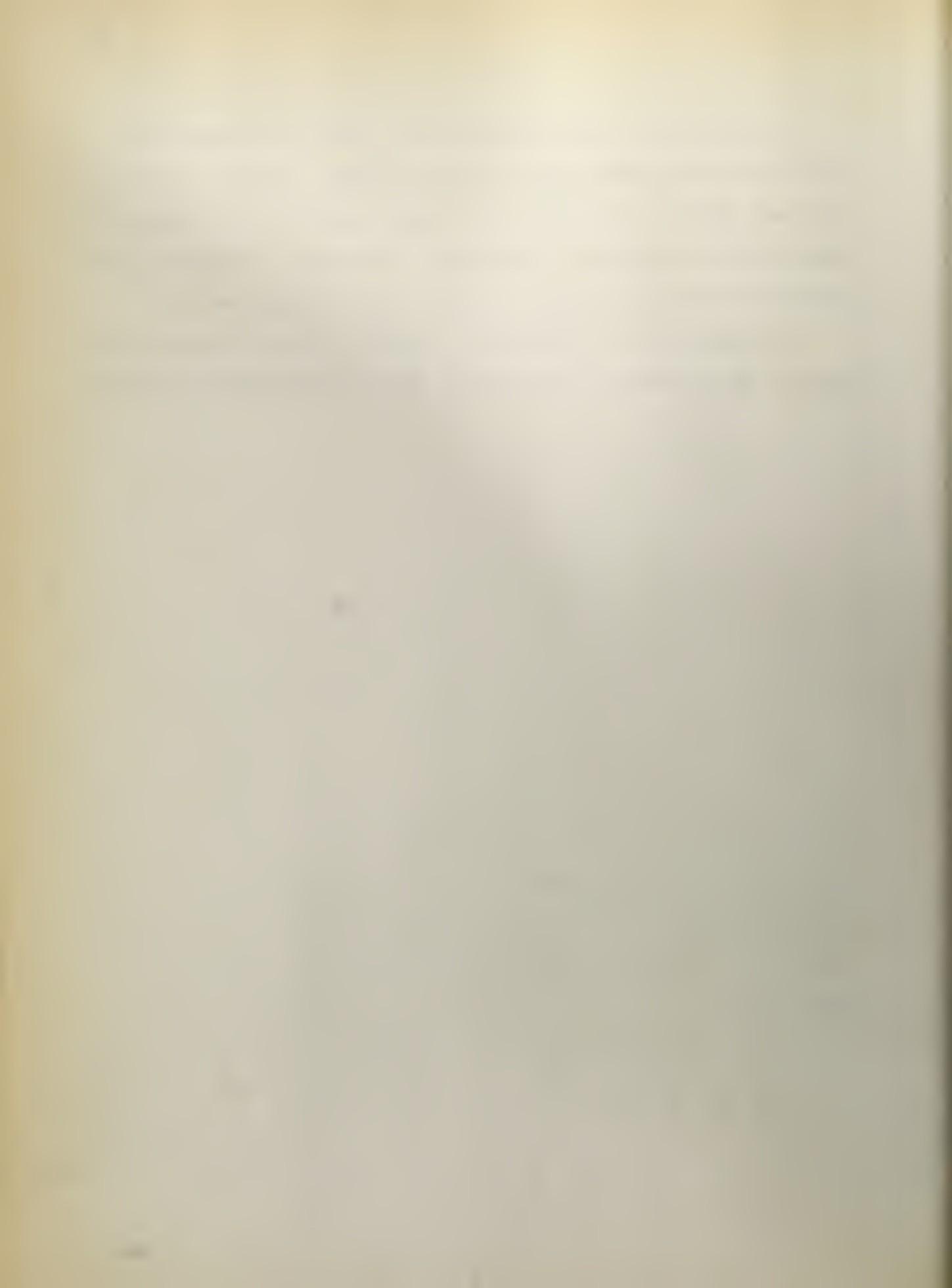
The industrial countries of Europe have experimented with unemployment insurance for many years. One of the early schemes was the Ghent System. Under this system, workmen's organizations which provided unemployment benefits were subsidized by the state. This plan did not put any of the burden on the employer.

Later experiments have resulted in the establishment of public insurance systems against unemployment in eighteen countries. Nine of these plans provide for voluntary schemes, while in the other nine countries, insurance is obligatory for certain classes of workers.



The plans are alike in objective: all are designed to relieve the distress caused by unemployment. However, all of the plans differ in regard to coverage, methods and rates of contribution, amounts and duration of benefits, provision for emergency contributions and benefits, and administration.

Although many of the systems embody notable features, the plans of Great Britain and Germany are of outstanding interest.



CHAPTER VI

INSURANCE SCHEME IN GREAT BRITAIN

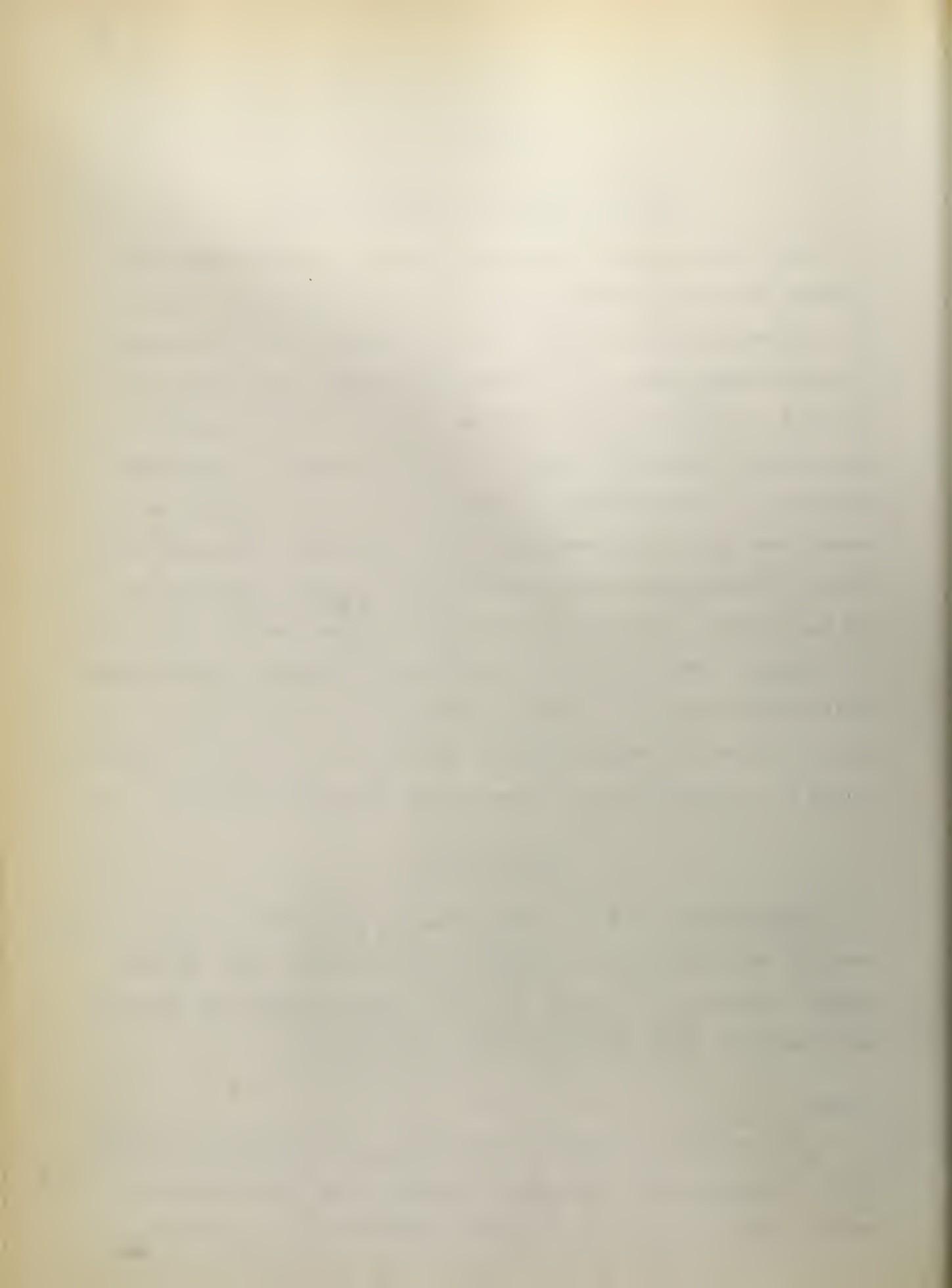
The adoption of a compulsory system of unemployment insurance in Great Britain was the result of a careful study of subsidized voluntary plans. In 1905 the government appointed a Royal Commission on Poor Laws and Distress, which made inquiries into the problem from 1905 to 1909. The committee recommended the establishment of a state system of employment exchanges. An unemployment insurance bill was prepared at the same time, but it was decided to wait until the exchanges were firmly established before enacting the proposed insurance law. By March 1910, there were 214 labor exchanges established, and in December 1911, the first unemployment insurance law in Great Britain was adopted. A compulsory plan was thought to be preferable in that a large number of workers in a variety of trades could be included, and the costs more widely distributed.

ACT OF 1911

Contributions to the unemployment fund began on July 15, 1912, but the first payments of benefit were not made until January 1913. The cost of the plan was to be borne jointly by employer and employee, with an additional state subsidy.

Scope

The plan was limited to selected trades which had a medium rate of unemployment; workers in building and construction of works, engineering, iron founding, construction of vehicles,



and saw milling industries were entitled to benefits.¹ Only about 2,500,000 workers came within the plan. In the trades not covered, the government agreed to pay not more than one-sixth of the benefits paid by voluntary insurance associations to members, provided benefits did not exceed \$2.92 weekly.

Method of Financing

Rates of contribution were set at 5 cents a week from employer and workman for all workers over 18 years of age, and 2 cents each for those 17 to 18 years of age. The state contributed an amount equal to one-third of these joint contributions.

It was decided that the fund should be able to meet a yearly average of 4.5 per cent of unemployment among insured workers, but if necessary it might borrow from the national treasury up to \$14,600,000.

Conditions for Benefit

To obtain benefits the worker had to prove at a labor exchange that he had been employed in an insured trade for twenty-six weeks in the five years preceding claim. He also had to prove that he was capable of working but unable to obtain employment, and that he had not exhausted his right to benefits. Workers were not eligible if they had lost their employment because of misconduct, trade disputes, voluntary quits, or if they were receiving a sickness or disability al-

¹ National Industrial Conference Board--"Unemployment Insurance in Theory and Practice" pp. 38-59

lowance under the health insurance law.

Benefits

After a waiting period of one week, the worker was to receive \$1.68 weekly. He was entitled to one week of benefit for every fifteen contributions, but not more than fifteen weeks' benefit was to be paid in an insurance year. Workers sixteen to eighteen years old were to receive benefits of one-half the regular rate.

Administration

The administration was under the management of the Board of Trade, which also had charge of the labor exchanges. Divisional offices were established in the most important industrial centers and all local exchanges were under their supervision.

Contributions of employers and workers are paid by means of stamps purchased by the employers from the post offices and affixed by them in unemployment books issued to workers by the insurance offices. These books are carried by the insured workers and deposited with the employer. The employee's share of the contribution is deducted from his weekly wages. Books are issued for a stated period, and at the date of expiration are turned in at the local office in return for new ones. When a worker leaves his position, the book is returned to him, and if he wishes to claim benefit, the book is filed at the local labor exchange. The unemployed worker must report at the local office daily and sign the unemployment roll.

Claims for benefits, together with a statement from the last employer regarding reasons for the unemployment and an account of his contributions are forwarded to the divisional office. If allowed, they are paid at once.

The operation of the law began under favorable circumstances, so that from the first, contributions exceeded benefits. By August 1914, a surplus of \$15,600,000 had accumulated.

Effects of World War

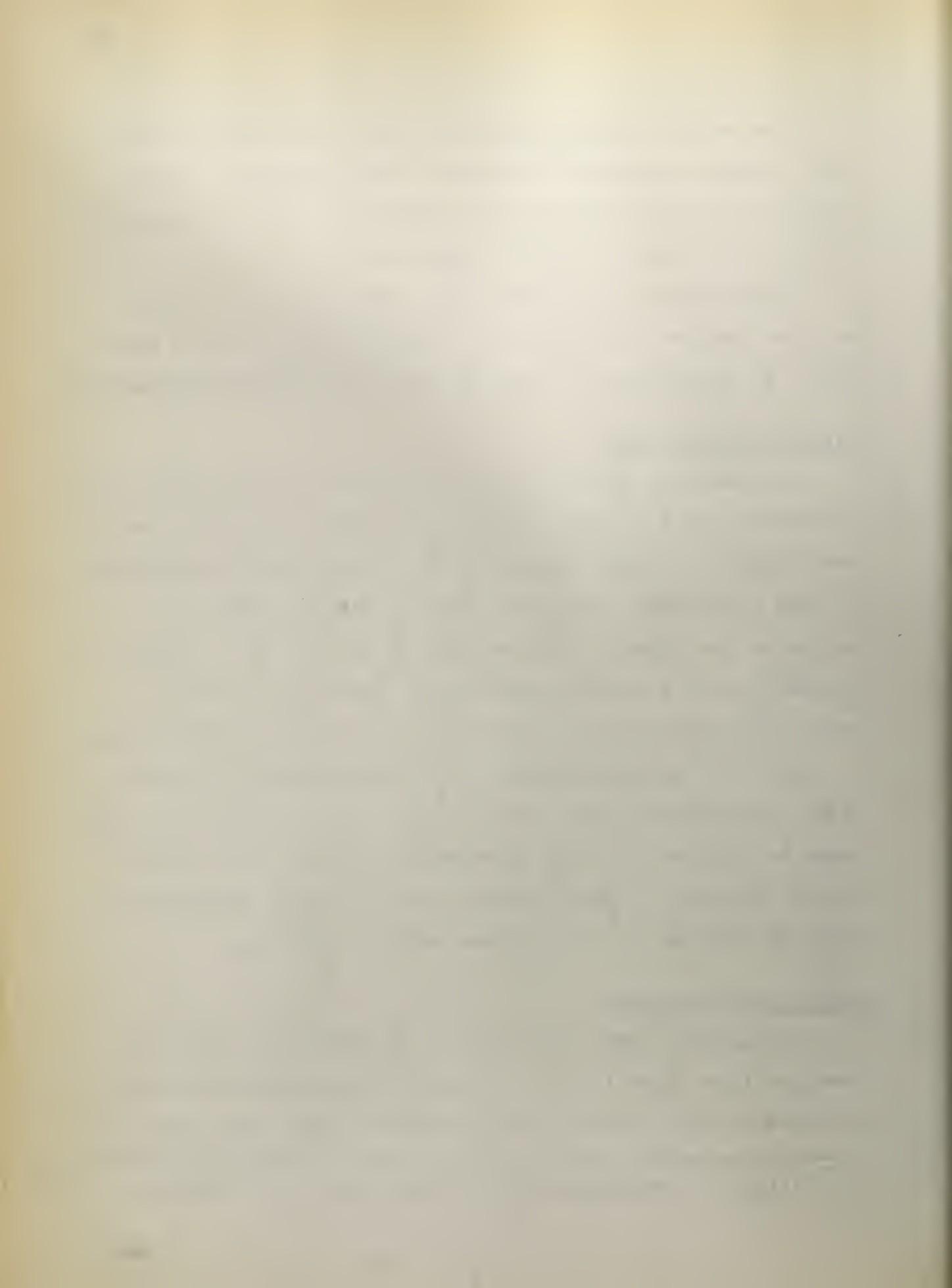
The drain of men into army and munition works caused unemployment to fall so that by the end of 1915 the problem was almost forgotten. Trade unions at that time showed unemployment of only 1 per cent, and by the end of 1917, the index had fallen to the unparalleled low mark of .6 per cent. During the war period the application of the law was extended to about 1,500,000 workers, mostly those in munitions industries.

In 1916, in anticipation of the demobilization of soldiers, and general dislocation of industry, the Board of Trade began to consider the many problems that would arise at the end of the war. It was expected that the change would be as great at the close as it had been at the beginning.

Out of Work Donations

In November 1918, two schemes¹ for additional benefits were put into operation. The first, an ex-service donation, provided a free policy of unemployment insurance which en-

1 William H. Beveridge--"War and Insurance" pp. 229-249



titled the holder to a maximum of twenty-six weeks' donation during the twelve months following demobilization. An extension of thirteen weeks followed, and from time to time the scheme was extended so that these extra donations were given until March, 1921.

The second scheme provided for out of work benefits for civilians who had been displaced when munitions work had stopped. This was modelled on the first plan, but was in effect for only one year. All who had entered employment at least three months before November 1918 could claim donation. Later the right was limited to persons employed for at least twenty weeks during 1918, and later to persons who could show to the satisfaction of the Local Employment Committee that they were normally in employment, genuinely seeking it, and unable to obtain it.

Over 3,653,000 policies were issued to ex-service men, with an expenditure of \$335,000,000; 2,492,000 policies with an expenditure of \$115,000,000 were issued to civilians.

MAJOR DEVELOPMENTS

Since the original plan was established, many liberalizing features have been added to its provisions.

Increased Coverage

Under the Act of 1920, coverage was extended to practically all workers, except those in agriculture and domestic servants. All manual and non-manual workers, earning less than \$1217 yearly, or a total of 12,000,000 workers, were brought

under the plan.

Uncovenanted Benefits

In 1921 the number of unemployed had increased to 2,000,000 wholly unemployed persons, with many more working only on short time.

Because of the depression it was impossible for large numbers of workers to build up any reserve of contributions against which they could draw benefits. An act was passed in March 1921 introducing the principle of "uncovenanted" or "extended" benefits, or as they are now called, "transitional" benefits. Unemployed persons might receive benefits notwithstanding an insufficient number of contributions, provided they were unable to obtain employment.

The Act of 1927 provided that, to be entitled to benefits, the claimant must have paid eight or more contributions during the two-year period immediately preceding his claim, or thirty contributions at some time. This act has been extended to the present time by a series of amending laws.

Contribution Rates

Several increases have been made since the Act of 1911 under which the worker and employer each paid five cents and the Exchequer three and one-third cents. In 1920 rates were increased to eight cents from workers and employers and four cents from the state. Separate rates were established for men and women. These were increased in 1927, in 1930, and again in 1931.

Benefits

Rates of benefit were changed so that they vary as between men and women, and as between young persons and juveniles. Allowances have been introduced for dependents. The rates have changed several times since the establishment of the scheme. They were increased in 1919, 1920, 1924, 1927, and were reduced approximately ten per cent in November 1931.

Borrowing Power of Fund

In 1922 the loan limit of the fund was increased from \$14,600,000 to \$146,000,000. In 1928, it was increased to \$194,700,000 and in 1930 the limit was set at \$340,700,000.

OPERATION OF SCHEME AT PRESENT TIME

The chart¹ on the next page indicates how the operation of the insurance plan differs from the original plan.

Coverage

The present law² covers approximately 13,300,000 wage-earners, and practically all trades are included.

Contributions

In November 1931, contributions were set at the following rates: 20 cents from men, twenty-one to sixty-four years of age, with 20 cents from employers, and 13 cents from the Exchequer; 18 cents from men eighteen to twenty years old, with a

¹ Metropolitan Life Insurance Company--"Unemployment Insurance" p. 8

² Monthly Labor Review, December 1931 pp. 72-75

MAJOR DEVELOPMENTS IN GREAT BRITAIN

(Compulsory Insurance Plan)

Population: 45,700,000

Wage Earners: 18,000,000

	ORIGINAL PLAN, 1911	PRESENT SCHEME, 1931																																																		
	INSURED TRADES																																																			
	Building, construction of works, ship-building, mechanical engineering, iron founding, construction of vehicles, saw-milling 2,250,000 insured.	Practically all trades, except agriculture and private domestic service. All manual; and non-manual earning less than \$1,217 yearly. Almost all the 13,300,000 wage earners in the classes covered are insured.																																																		
WEEKLY CONTRIBUTIONS (In Cents)	<table> <thead> <tr> <th></th> <th>18-64</th> <th>Under 18</th> <th>Men</th> <th>Women</th> </tr> </thead> <tbody> <tr> <td>Employer</td> <td>5¢</td> <td>2¢</td> <td>21-64</td> <td>18-20</td> </tr> <tr> <td>Employee</td> <td>5</td> <td>2</td> <td>20¢</td> <td>18¢</td> </tr> <tr> <td>State</td> <td>3 1/3</td> <td>1 1/3</td> <td>10¢</td> <td>18¢</td> </tr> <tr> <td>Total</td> <td>13 1/3</td> <td>5 1/3</td> <td>18</td> <td>16¢</td> </tr> </tbody> </table> <p>Loan limit, \$14,600,000</p>		18-64	Under 18	Men	Women	Employer	5¢	2¢	21-64	18-20	Employee	5	2	20¢	18¢	State	3 1/3	1 1/3	10¢	18¢	Total	13 1/3	5 1/3	18	16¢	<table> <thead> <tr> <th></th> <th>18-64</th> <th>Under 18</th> <th>Men</th> <th>Women</th> </tr> </thead> <tbody> <tr> <td>Employer</td> <td>5¢</td> <td>2¢</td> <td>21-64</td> <td>18-20</td> </tr> <tr> <td>Employee</td> <td>5</td> <td>2</td> <td>20¢</td> <td>18¢</td> </tr> <tr> <td>State</td> <td>3 1/3</td> <td>1 1/3</td> <td>10¢</td> <td>18¢</td> </tr> <tr> <td>Total</td> <td>13 1/3</td> <td>5 1/3</td> <td>18</td> <td>16¢</td> </tr> </tbody> </table> <p>Limit raised to \$340,700,000</p>		18-64	Under 18	Men	Women	Employer	5¢	2¢	21-64	18-20	Employee	5	2	20¢	18¢	State	3 1/3	1 1/3	10¢	18¢	Total	13 1/3	5 1/3	18	16¢
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CONDITIONS FOR BENEFIT	Claimant must have been employed 26 weeks in insured trade in the five years preceding claim. He must prove himself capable of work, but unable to obtain suitable employment; which does not include vacancy due to a trade dispute or where job offered is less favorable than those prevailing in district. Temporary disqualification if job was lost because of trade dispute, misconduct or voluntary quitting.	30 Contributions in last two years. Temporary provision, eight in last two years, or 30 at any time. (Cost of benefits under this provision borne entirely by state.) Available for work and capable of it. Has not refused offer of suitable employment or to carry out direction (or course of instruction) to help him find it, not including vacancy due to trade dispute, less favorable conditions than where job is offered. Job not lost through trade dispute, misconduct, or voluntary quitting.																																																		
BENEFIT	<p>Waiting period one week. One week's benefit for every five contributions paid, maximum 15 weeks in an insurance year.</p> <p>Benefit: \$1.70 men and women; 85¢ boys and girls.</p> <p>Raised to \$2.68 and \$1.34 in 1919. Raised gradually until the reduction of approximately 10% was ordered.</p>	<p>Waiting period six days. No maximum duration of benefits.</p> <p>Weekly benefit:</p> <table> <thead> <tr> <th></th> <th>21-64</th> <th>18-20</th> <th>17</th> <th>17</th> </tr> </thead> <tbody> <tr> <td>Men</td> <td>\$3.71</td> <td>\$3.04</td> <td>\$1.95</td> <td>\$1.34</td> </tr> <tr> <td>Women</td> <td>3.28</td> <td>2.62</td> <td>1.64</td> <td>1.10</td> </tr> </tbody> </table> <p>Weekly dependent benefit: \$1.95 for adult dependents 49¢ for each dependent child</p>			21-64	18-20	17	17	Men	\$3.71	\$3.04	\$1.95	\$1.34	Women	3.28	2.62	1.64	1.10																																		
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MAJOR DEVELOPMENTS IN GREAT BRITAIN--Continued

	ORIGINAL PLAN, 1911	PRESENT SCHEME, 1931
ADMINIS- TRATION	<p>Administered by Board of Trade through Labour Exchanges. Insurance Officer appointed by Board of Trade:</p> <p>If claim allowed, final; if disallowed, claimant may appeal to Court of Referees: one employer, one workman, one chairman.</p> <p>If disallowed, final. If allowed, Insurance Officer may appeal to Umpire, appointed by Crown:</p> <p>Decision final.</p> <p>Also settles other points.</p> <p>Industries may "contract out" and administer own insurance, with similar grant from government.</p> <p>Contributions paid by buying stamps from Post Office</p>	<p>Administration materially unchanged since 1911, except no more "contracting out" privileges granted.</p>

similar amount from the employers, and 12 cents from the state; boys under eighteen and their employers contribute 10 cents each, and the state's share is 7 cents. The rates for women are lower: women from twenty-one to sixty-four years of age and their employers contribute 18 cents each, and 12 cents is paid by the state; women eighteen to twenty years of age and their employers contribute 16 cents each, with an additional state contribution of 11 cents; girls under eighteen years contribute 9 cents, their employers 9 cents, and the Exchequer 6 cents.

Benefits

The weekly benefits paid now after a waiting period of six days are:



Men aged 21 to 65	\$3.71
Young men aged 18 to 21	3.04
Boys aged 17 and under 18	1.95
Boys under 17	1.34
Women aged 21 to 65	3.28
Young women aged 18 to 21	2.62
Girls aged 17 and under 18	1.64
Girls under 17	1.10
Dependents' Benefit:	
Adult dependent	1.95
Child dependent	.49

Conditions for Benefit

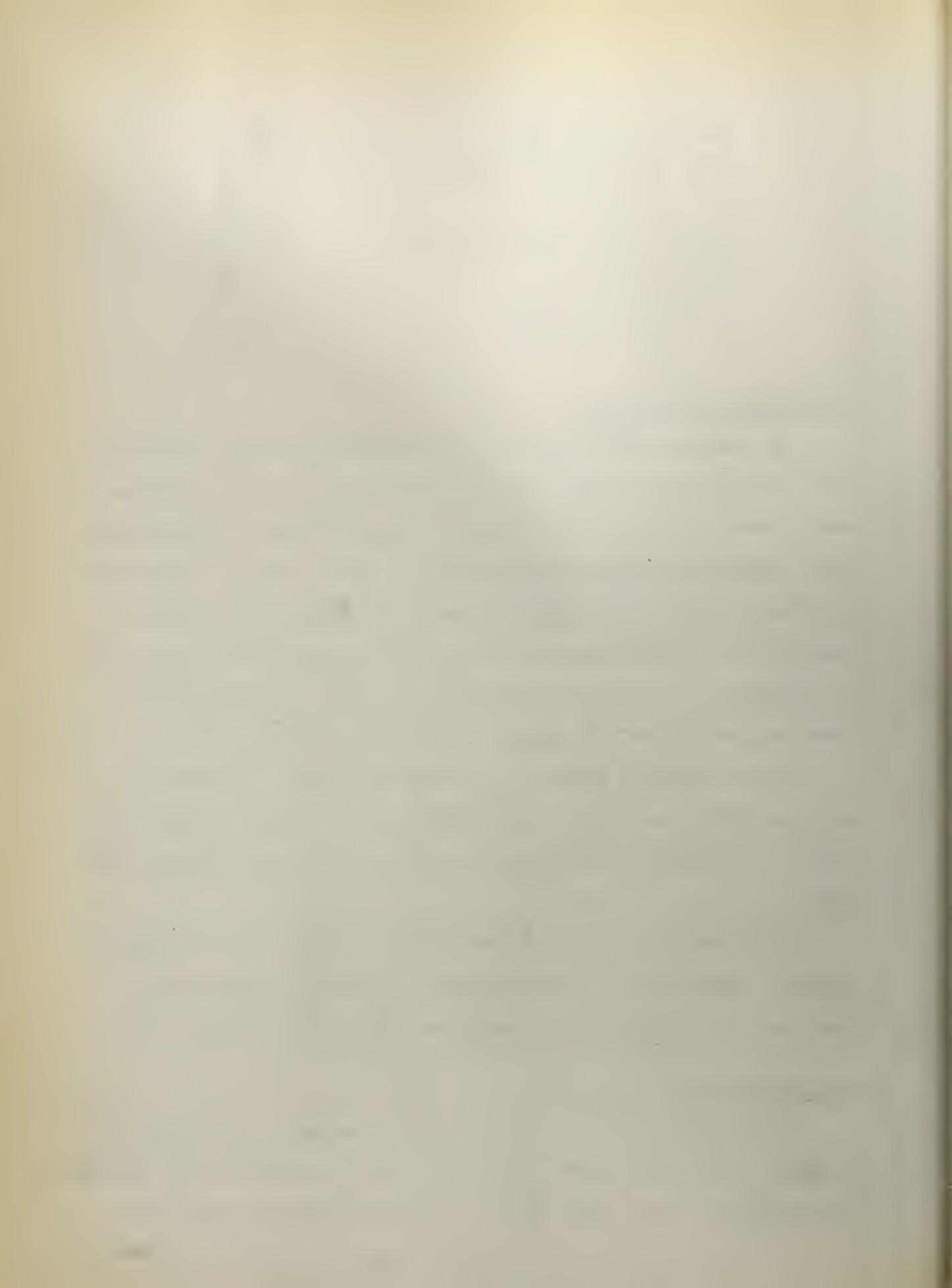
To draw standard benefits, the claimants must be able to show that they have made thirty contributions during the two years immediately preceding claim. The claimant must satisfy this thirty-contributions test every three months. Other requirements are: the claimant must be capable of work and available for it; he must attend a course of instruction, if so required. If these requirements are met, claimants may draw standard benefits for an unlimited period.

To be eligible for transitional benefits, the claimant must have paid eight or more contributions during the two years prior to the date of his claim or thirty contributions at any time.

A claimant is disqualified for any benefits if he refuses suitable employment or is unemployed because of industrial disputes, misconduct, or because he left his job voluntarily.

Administration

The administrative machinery has remained practically unchanged. It is now under the control of the Ministry of Labour and consists of the head office, 7 divisional offices, 417



employment exchanges, and 749 branch employment offices. Contributions are collected in the same manner as specified in the original law: books are obtained by the employee, and deposited with the employer; stamps are affixed by the employer, until such time as the employee is discharged, at which time the books are turned over to the labor exchange as claim for benefit.

The adjustment of grievances and disputes is taken care of by appeal to the courts of referees in every district, and by a final appeal to the umpire.

Financial Experience

The cost of the unemployment insurance plan has been tremendous. In 1920 the fund had a credit balance of \$107,100,000 but because of the extension of benefits to persons not included in the original scheme, the surplus was quickly exhausted and the fund had to borrow from the Exchequer. The introduction of transitional benefits altered the fund from a plan of insurance to one of public relief. The table given below shows how rapidly and to what extent the fund has become indebted to the Exchequer.

DEBT OF THE UNEMPLOYMENT FUND IN GREAT BRITAIN¹

December 31, 1921	\$36,985,400
December 31, 1922	75,983,000
December 31, 1923	60,816,913
December 31, 1924	24,787,756
December 31, 1925	35,343,292

¹ Monthly Labor Review, December 31, 1931 p. 287

December 31, 1926	\$110,177,560
December 31, 1927	112,805,470
December 31, 1928	154,365,380
December 31, 1929	184,197,025
December 31, 1930	291,941,335
September 30, 1931	495,900,000

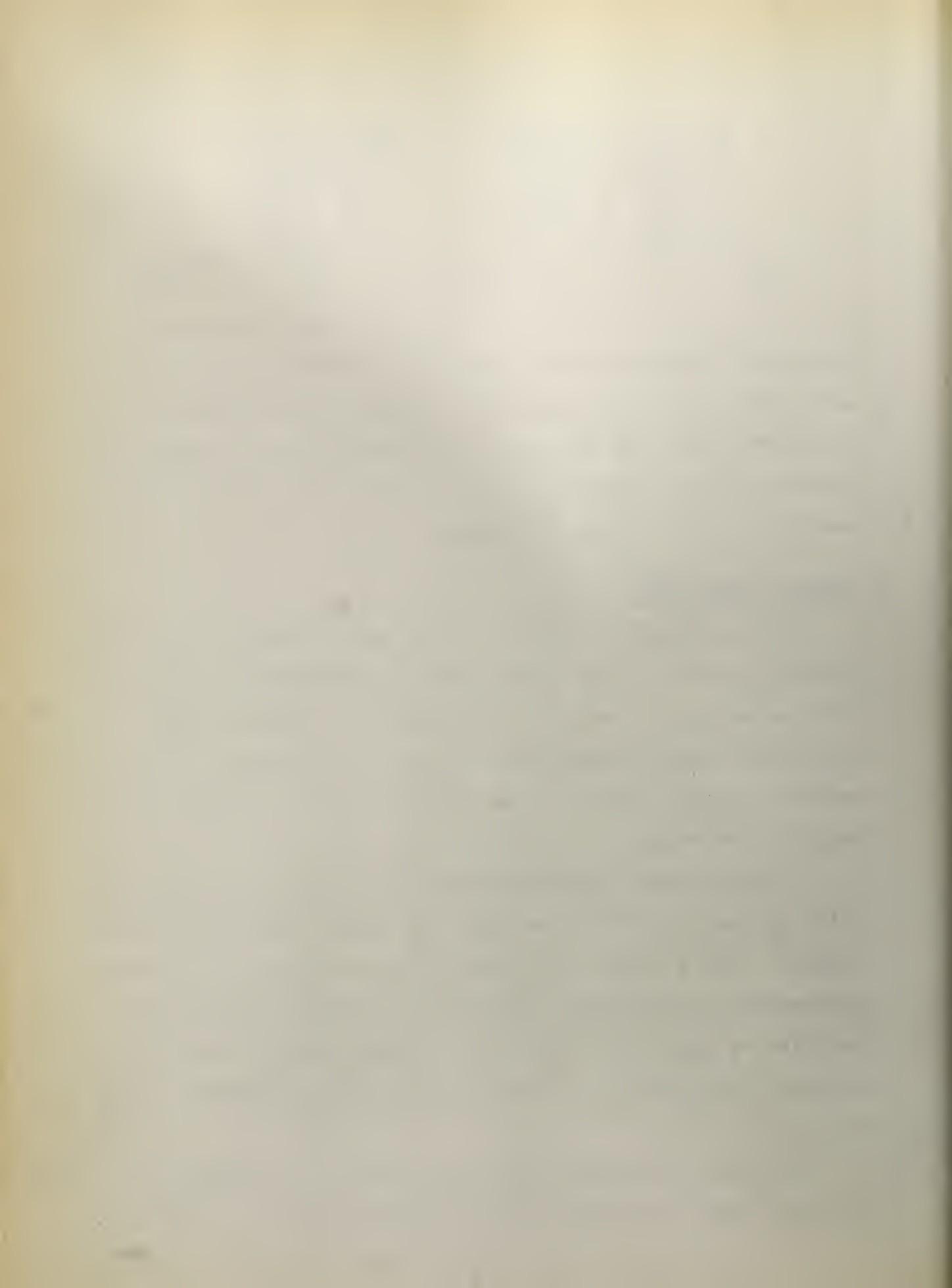
Since the end of 1929, the fund has paid barely fifty per cent of the actual expenditures. In August 1931, the 2,500,000 beneficiaries received from the fund two and one-half times the sum contributed by workers and employees. Of this number, 500,000 were receiving transitional benefits, estimated at \$170,300,000 for the year 1931, the whole of which must be provided by the Exchequer.

General Experience

The unemployment insurance plan was originally a pure insurance scheme on an actuarial basis. Benefits were low and were set at a flat rate without reference to normal wages or individual needs of unemployed persons. There was a definite relation between the period of benefit and the contributions paid by each worker.

This attitude toward unemployment insurance was evident in 1918 when the emergency benefits were paid entirely by the Exchequer. The original plan was intended to cover only persons meeting the contributory requirements, and the extension of benefits to people in need of aid but who had not made the necessary contributions caused the financial breakdown of the fund.

At first it was hoped that the fund, with temporary assistance from the Treasury could meet the additional payments.



A long series of acts providing for temporary relaxation of qualifications has been enacted in an unsuccessful attempt to keep the plan on an insurance basis.

CHAPTER VII

UNEMPLOYMENT INSURANCE IN GERMANY

The unemployment insurance law was enacted in 1927, but before that time, Germany had experimented with federal unemployment relief.

Pre-War Experiences

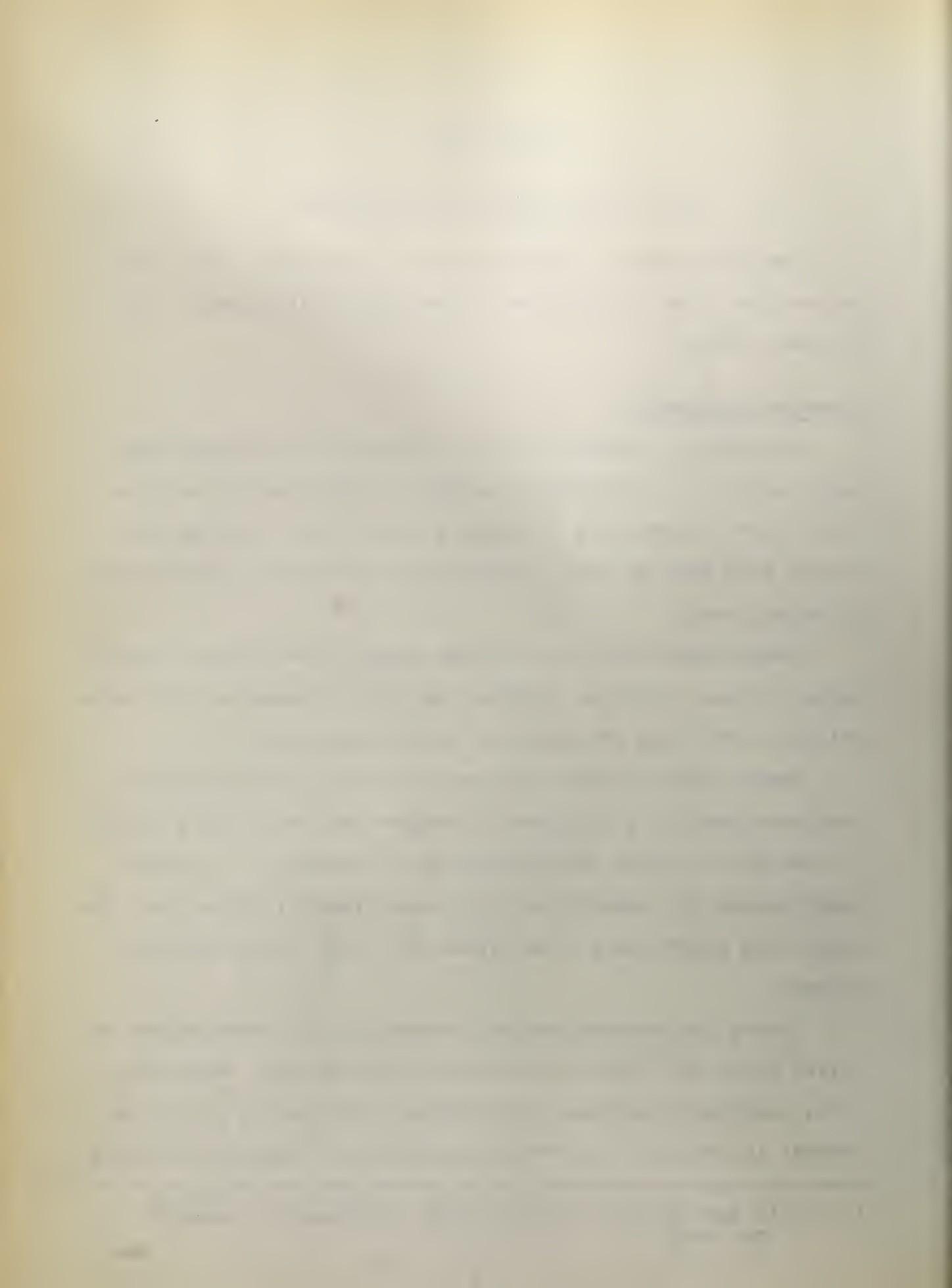
Attempts to provide for the able-bodied unemployed were made early in the nineteenth century,¹ when trade unions provided travel allowances to members out of work. During the period from 1890 to 1910, trade-union benefit plans were rapidly established.

Co-operative groups also gave special unemployment assistance to their members. Several employers attempted to provide relief in the form of organized unemployment funds.

Unemployment relief systems operated by public authorities developed to a considerable degree before the war, either in the form of funds administered by the state; or as funds administered by trade unions, but subsidized by the state. The assistance given was in the nature of relief rather than insurance.

During the pre-war period, progress in the development of relief plans was neither uniform nor uncontested. Nevertheless, certain principles and policies, which later proved important influences in modifying legislation emerged from these

¹ Mollie Ray Carroll--"Unemployment Insurance in Germany"
pp. 6-10



individual experiments.

Post-War Conditions

During the war special aid had to be extended to most of the industries, and conditions at that time led to widespread acceptance of the need for federal unemployment measures.

The existing unemployment situation was intensified by the conditions experienced at the end of the war. The demobilization of forces released 6,000,000 men, over 700,000 of whom were regulars long unaccustomed to industrial life. No provision had been planned to meet this situation.

Germany's area was reduced thirteen per cent under the Treaty of Versailles. Many people living in the ceded areas returned to the Fatherland, so that, together with the increased urban population, Germany faced many unusual problems incident to the redistribution of population.

Because of the magnitude of the unemployment problem, federal unemployment relief was adopted as an emergency measure in 1918.¹ All communes were required to give benefits to people able and willing to work, but suffering because of unemployment resulting from the war. Funds for this purpose were contributed by the federal government, the states, and the municipalities. The rates of benefit were decided by each community.

The post-war relief experiences in Germany crystallized public opinion concerning the need of uniform unemployment assistance. Local experience was recognized as less satisfac-

¹ Mollie Ray Carroll--"Unemployment Insurance in Germany"
pp. 13-15

tory than national, and insurance was believed to be preferable to relief. In consideration of the fact that the employment exchanges had come to play such an important part in the program of unemployment assistance, the new law integrated the exchanges and unemployment insurance.

THE LAW OF 1927

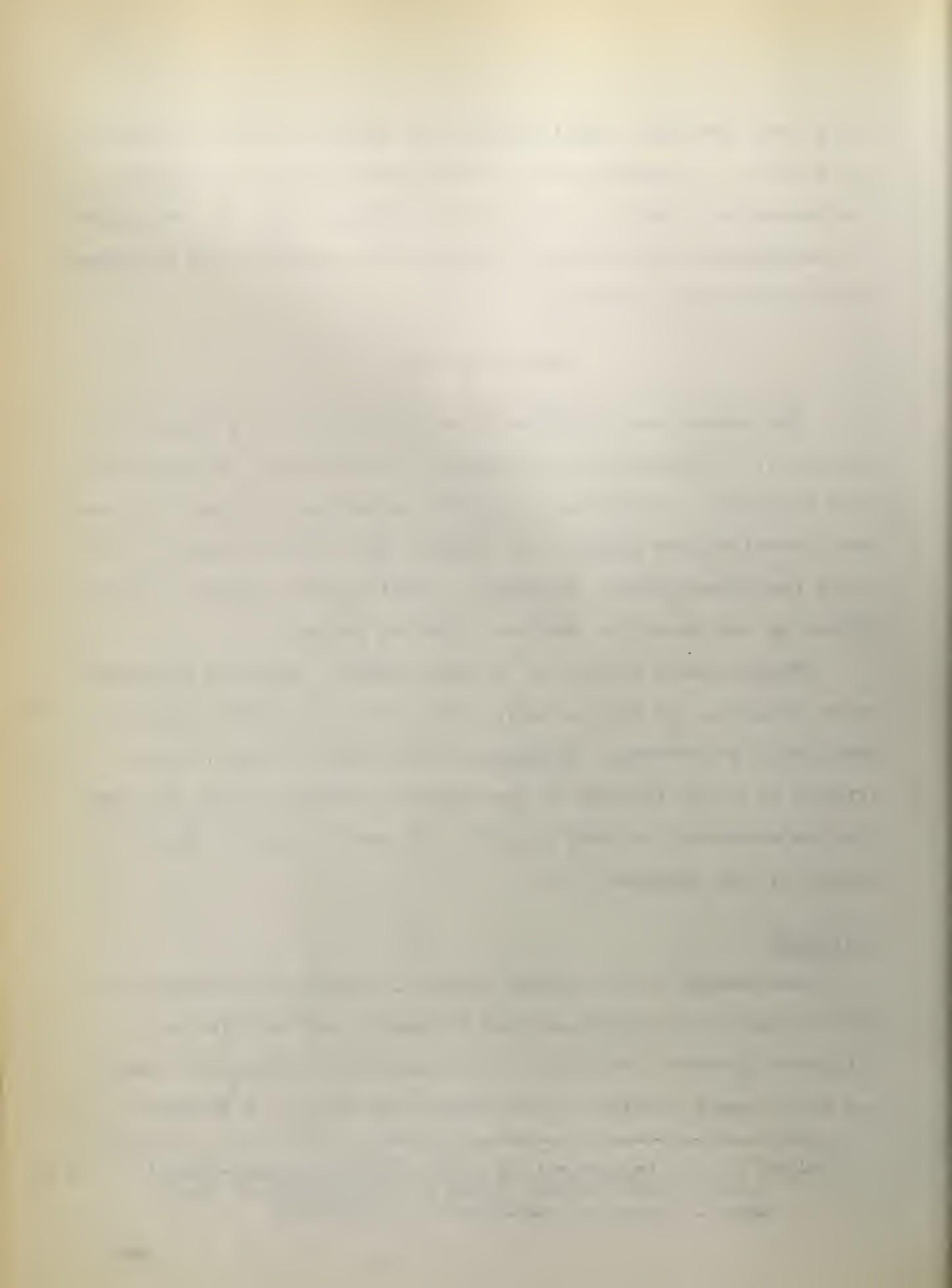
The German plan¹ differs from the British in several particulars: contributions are paid by two parties, the employer and the worker; benefits are graded according to wages received and contributions given; the claimant may receive benefit for only twenty-six weeks, although a supplementary benefit may be given by the state for another thirteen weeks.

Unemployment relief is of three kinds: ordinary unemployment benefit, the cost of which is covered by contributions of employers and workers; emergency unemployment relief, four-fifths of which is paid by the federal government and the rest by the communes; welfare support, the entire cost of which is borne by the communes.

Coverage

Membership in the German system is compulsory for most of the occupational groups covered by health and salaried employees' schemes. Practically all workers over sixteen years of age, except certain agricultural, forestry, and fishery

¹ United States Department of Labor--"Unemployment-Benefit Plans in the United States and Unemployment Insurance in Foreign Countries" pp. 250-260



workers, whose annual income does not exceed \$2000 are included in these groups. Persons whose earnings are in excess of the legal limits are allowed to join the insurance scheme voluntarily. In 1927, it was estimated that the average number of unemployed workers would not exceed 700,000 each year.

Contributions

The expense of the system is provided by equal contributions from employers and workers. The total payment must not exceed three per cent of wages. The state normally makes no contributions, but when the fund runs into debt, the state subsidizes it up to half of the deficit, specifying that the remainder must be raised by increasing contributions and decreasing benefits.

Eligibility to Benefits

Before the unemployed worker is allowed to file a claim for benefit, he must meet three conditions: he must have fulfilled the vocational requirements; he must be involuntarily unemployed; and he must not have exhausted his claim to benefits.

A person is eligible for benefits only after he has worked twenty-six weeks in a year in a compulsorily insured occupation. Ability and willingness to work are other requirements. Unemployment must be involuntary.

Work may be refused for justifiable reasons, without impairing the unemployed person's eligibility to benefits.

The unemployed worker must report in person at the local

labor exchange to prove his ability to work. Then, after a waiting period of six days, payment of benefits begins. While receiving benefits, he must report to the exchange three times a week.

Benefits

The benefit consists of a basic benefit and a family allowance amounting to a fixed per cent of the standard of the class in which the unemployed person is listed. Eleven classes have been established for purposes of calculation of benefits, and benefits range from \$1.43 in the lowest class to \$5.25 in the highest class.

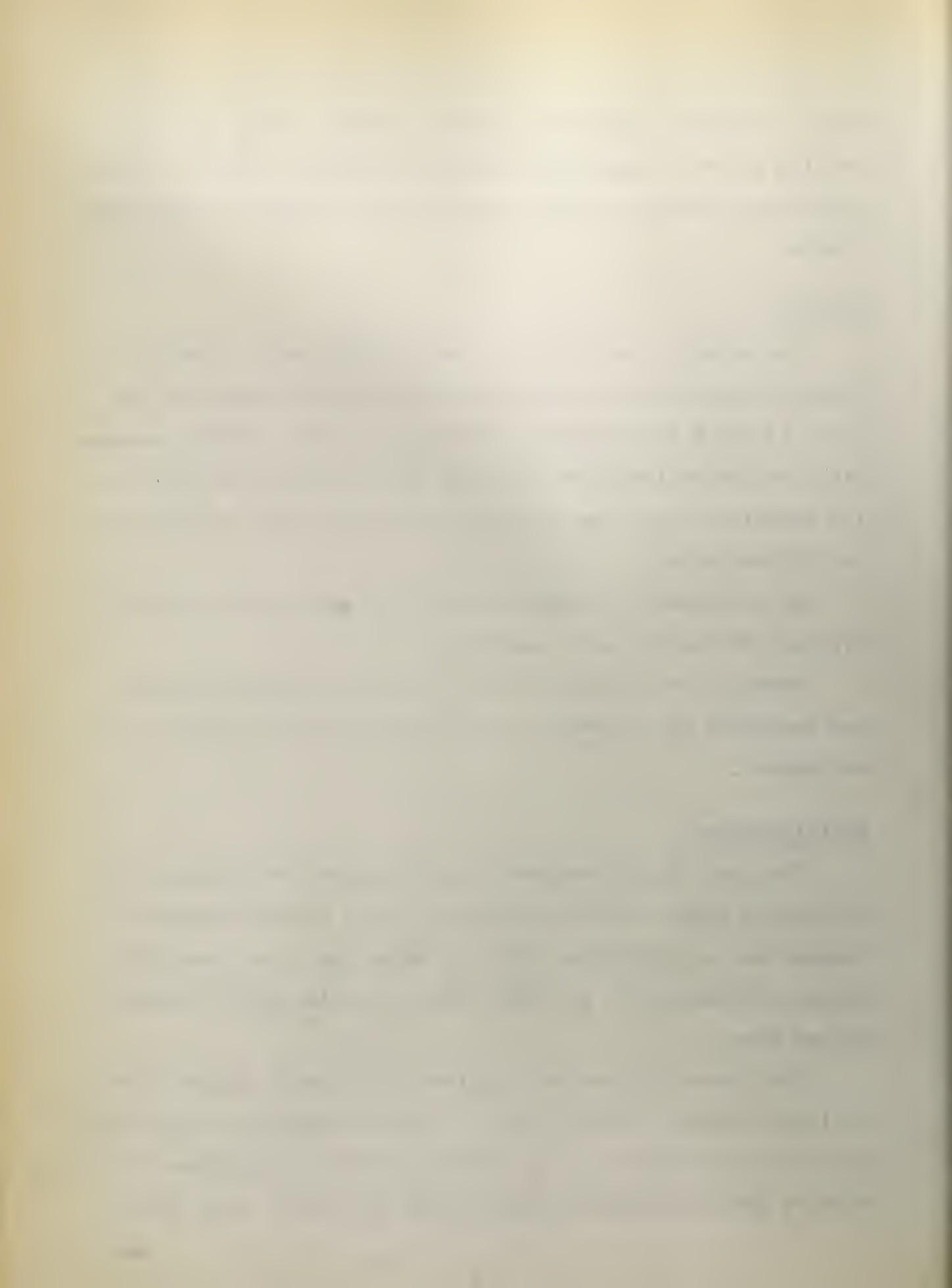
An additional allowance of five per cent of the standard wage is granted for each dependent.

Benefits are calculated on the basis of a six-day week, and one-sixth of the weekly rate is given for every day of unemployment.

Administration

The plan is administered by the Minister of Labor and an autonomous body, the Reichsanstalt. Since the employment exchanges are so important, they are under the direct supervision of the Reichsanstalt, but their right to exist may be revoked at any time.

The governing body is organized into local, district and national offices. Every locality is included within the province of a local office. The Federal Bureau of Employment Exchanges and Unemployment Insurance is made up of three groups



having power of administration: (a) the governing bodies; (b) the officials and those who conduct the work of the offices; and (c) the courts of reference or appeal.

The executives in the exchanges have the status of civil service officials, and the rest of the staff is employed under terms similar to those of private contract.

REVISIONS OF THE LAW

In view of the fact that the efficient operation of employment exchanges is essential, a special provision was made in October 1929 to concentrate all private agencies in the hands of the federal government. All private agencies were compelled to close by January 1931.

Many radical revisions followed the enactment of the law in 1927. The chart¹ on the next page clearly shows that the operation of the law at present is different in many respects from the original law.

Coverage

The coverage by 1928 had increased to 17,057,877 workers because of the inclusion of higher-salaried workers. The age at which the unemployed can receive benefits has been raised from sixteen to twenty-one years.

Contributions

The Government has stopped its practice of subsidizing the

¹ Metropolitan Life Insurance Company--"Unemployment Insurance" p. 12

MAJOR DEVELOPMENTS IN GERMANY

(Compulsory Insurance Plan)

Population: 63,000,000

Wage Earners: 18,200,000

	ORIGINAL ACT, 1927	SUBSEQUENT REVISIONS
INSURED TRADES	Practically all workers under a specified salary were included, except some agriculturalists and industrial home workers. Domestics included.	October 1929--more agricultural, industrial home workers, and casual workers excluded. Salary limits raised, now \$1,428 for wage earners, \$2000 for salary earners
WEEKLY CONTRIBUTIONS	Equal contributions, totaling a maximum of 3% of wages, from employer and employee. Government contributes to only the extended benefits. The Nation pays 4/5 of these, localities 1/5. But "standard" fund could borrow from treasury. Rates of contribution to be lowered for district with favorable balance for 3 months, if national reserve is strong enough. None yet allowed, as fund soon went into debt.	Maximum raised to 3 1/2%, effective Jan., 1930; again to 4 1/2% July, 1930, again to 6 1/2% in Sept., 1930. Along with first increase, federal budget was to subsidize the standard fund annually, which subsidy, on April 1, 1930, was set at half the deficit, with the rest raised by raising contributions and all loans up to March 31, 1930, were canceled.
CONDITIONS FOR BENEFIT	26 weeks actual work with contributions, in the preceding year. Temporarily disqualified if unemployment is voluntary or caused by misconduct or a trade dispute and benefit reduced if worker is earning over 20% of regular benefit at off jobs. Capable of and willing to work. 4 weeks disqualification for non-acceptance of suitable job--not including work available because of labor dispute or at lower standard than prevalent where job is offered. Job in a different occupation may be refused for the first nine weeks. Must not be receiving other national benefits nor be in a public institution.	Condition added that, on first application, 52 weeks in last 2 years are required. 8 weeks made the maximum disqualification for failure to accept suitable job. 4 weeks disqualification imposed on men temporarily laid off. Seasonal workers denied privilege of declining job in another occupation at any time.

MAJOR DEVELOPMENTS IN GERMANY--Continued		
	ORIGINAL ACT, 1927	SUBSEQUENT REVISIONS
BENEFIT	<p>After a waiting period of 7 days, standard benefit is payable for a maximum of 26 weeks, plus emergency benefits on government contribution, payable only at discretion of Minister of Labor. In addition to payment of employees' contributions for other social insurance, there are benefits scaled according to the wage class (based on last 3 months' wages), varying from 75% of the lowest representative wage class to 35% of the highest, with provision for dependents increasing with the wage class.</p>	<p>Waiting period 14 days, if under age 21; 3 days if 4 or more dependents. Seasonal workers benefit from Dec. 1 to March 31, limited to 6 weeks and reduced in amount. Emergency benefits cut to 32 weeks total, reduced in amount, and requirements made more stringent. Wage class based on last 6 months' wages.</p>
ADMINISTRATION	<p>Administered by the Minister of Labor and an autonomous body--The Reichanstalt--which is run by a Board of Directors. The administrative council decides on claims, rates, etc., subject to appeal to the Courts of Reference, subject, in turn to final appeal to Federal Insurance Bureau. Administered at the Labor Exchanges with vocational guidance and job placement stressed.</p>	<p>Penalties increased.</p>

fund and has cancelled the entire debt of the fund to the Treasury. This Federal Bureau must now function on its own account as an insurance company, so far as the funds needed to cover the persons insured under the unemployment insurance system are concerned. The "extended" benefits, however, are paid from funds, four-fifths of which are supplied by the Government and one-fifth by the communes, although such benefits are paid through the employment offices of the Federal Bureau of Employment Exchanges and Unemployment Insurance.

The amount of unemployment-insurance contribution required has steadily increased until now it is set at 6 1/2 per cent of the standard wage, paid in equal parts by the employer and the employees. The 6 1/2 per cent contribution is based on the following classified wage scale:¹

<u>Wage Class</u>	<u>Weekly Wage</u>	<u>Standard Weekly Wage</u>
I	\$2.38 and under	\$1.90
II	2.38 to \$3.33	2.86
III	3.33 to 4.28	3.81
IV	4.28 to 5.71	5.00
V	5.71 to 7.14	6.43
VI	7.14 to 8.57	7.85
VII	8.57 to 10.00	9.28
VIII	10.00 to 11.42	10.71
IX	11.42 to 12.85	12.14
X	12.85 to 14.28	13.57
XI	14.28 and over	14.99

Eligibility to Benefits

Until recently insured persons have been entitled to standard benefits for twenty-six weeks in a year if they have been

1 United States Department of Labor--"Unemployment-Benefit Plans in the United States and Unemployment Insurance in Foreign Countries" P. 253

at work and have paid fifty-two contributions during the two years preceding their first application for benefit. To be eligible for later receipt of benefits, the recipients must prove that they have been employed for not less than twenty-six weeks and have paid at least twenty-six weekly contributions during the twelve months preceding the filing of new claims for benefit. Under the new regulation, benefits will be based on the last thirteen weeks only, in order to prevent unemployed persons from receiving a benefit which may equal or even exceed the wages paid for such work during unemployment.

In June 1931, the waiting period was increased from fourteen days to twenty-one days for persons without dependents: and from three days to seven days for persons with four or more dependents. The insured person has a legal claim to benefit and is not required to prove that he is in need. The insured unemployed person is not required to accept compulsory work, except when the period of regular benefit has expired.

Benefits

The amount of benefit paid is determined by the normal wage and by the length of time the insured was engaged in the insured occupation. The unemployed person is placed in one of eleven classes on the basis of the average wage earned during the last thirteen weeks preceding the date of registered unemployment. The regular benefit period is fixed at twenty-six weeks.

The benefit consists of a basic benefit and a family allowance amounting to a fixed percentage of the standard wage of

the class in which the unemployed person has been placed. The benefit scale has recently been reduced. The standard weekly wage and the per cent allowed as benefit now are shown below:

<u>Wage Class</u>	<u>Standard Weekly Wage</u>	<u>Former Rate (Per cent of standard wage)</u>	<u>Present Rate (Per cent of standard wage)</u>
I	\$1.90	75	70
II	2.86	65	60
III	3.81	55	50
IV	5.00	47	42
V	6.43	40	35
VI	7.85	40	35
VII	9.28	37.5	32.5
VIII	10.71	35	30
IX	12.14	35	30
X	13.57	35	30
XI	14.99	35	30

A family allowance of not more than five per cent of the standard wage is also granted.

Extended Unemployment Benefit

All persons insured against unemployment are automatically eligible to extended benefits when their regular benefit period has expired, if they can prove that they are in actual need of support. The granting of extended benefits is strictly an emergency measure. In allowing these benefits, the income of the family is taken as a unit, and emergency relief is not granted for more than thirty-two weeks in a year.

The rates of benefit were reduced in June 1931, so that at present the highest weekly benefit for persons without dependents is \$2.75 and for persons with dependents, \$3.02. The amount of extended benefit paid is based on the classified wage scale. The recipients of emergency relief are required now to

repay the amount received as soon as they are in a position to do so.

The extended benefit is financed by the Federal Government to the extent of four-fifths, and one-fifth is contributed by the communes. The communes and the Government pay their respective shares to the Federal Board at the end of each month.

Welfare Support

The welfare support is an entirely separate relief system carried out by all the communes without any financial assistance from the Federal or State Governments. Workers who have exhausted their claims to both standard and emergency benefits become entitled to welfare support. As a rule, in order to qualify for welfare support, the claimant must prove that he can secure no financial help from any other source.

The period during which welfare support may be granted is practically unlimited.

Administration

The administrative machinery remains practically unchanged. It is carried out by the Federal Bureau of Employment Exchanges and Unemployment Insurance, with headquarters at Berlin, and with 13 district and 361 local employment offices.

By co-operation with compulsory health, sickness, old-age, and invalidity systems, the method of collecting contributions has been kept simple. The employer is compelled to deduct the employees' share of all insurance contributions from wages, and after adding his own share, to turn the amount over to the

local sickness-insurance office. These insurance offices are in turn compelled to send the unemployment-insurance contributions to the district employment office. The district employment office retains whatever amount is estimated for its needs for the next month and transfers the balance to the main office in Berlin, where a reserve fund sufficient to support at least 600,000 unemployed persons for a period of three months is maintained.

All disputes and grievances are settled, if possible, by the arbitration committee in the particular community. However, unsatisfactory decisions may be taken to a higher authority, the arbitration senate. Should the appeal to this body be rejected, further complaint may be filed with the Minister of Labor whose decisions are final.

Financial Experience

In 1927 the number of persons entitled to benefits was limited, but with the increased coverage, the number of unemployed workers eligible to benefits has increased. The tremendous increase is indicated by the fact that in 1930, 2,158,049 persons received benefit, while in 1928, 1,029,694 unemployed workers received aid.

As in Great Britain the greater part of the cost of unemployment relief comes out of the funds of the Federal Government. In spite of the fact that the insurance scheme was kept on an insurance basis, and although essential changes have been made, it was impossible to maintain the system on a sound financial basis. In March 1930, the Unemployment Insurance

Bureau owed the Government \$148,274,000. The Government has refused to make further loans to the fund, but has cancelled the outstanding debt.

The Federal Bureau estimated in its 1931 budget that the total receipts from contributions would amount to \$339,840,000 with which it could support an average of 1,750,000 unemployed persons. Any deficit in the future will have to be made up by increasing contributions or by reducing benefits.

PART IV

PROGRESS OF UNEMPLOYMENT INSURANCE
IN
THE UNITED STATES

CHAPTER VIII

PUBLIC UNEMPLOYMENT INSURANCE

The situation in the United States differs from that in foreign countries where various systems of public unemployment insurance have been adopted, in that the United States is not a single governmental unit. The responsibility for legislation of this type is generally conceded to belong to the various states instead of to the federal government.¹ Neither federal nor state governments are committed as yet to a definite policy for dealing with unemployment relief. The view that employers must be held responsible for the regularization of employment in their individual plants is current.

A few employers and trade unions, who have shown a marked interest in the diminution of unemployment by other methods, have thought it wise to re-enforce their efforts by unemployment-benefit plans. Such measures have been devised solely upon private initiative and under private control. Experiments in private schemes have been of three kinds: trade-union benefits, joint agreements between unions and employers, and private company plans.

PROGRESS OF PUBLIC INSURANCE

Compulsory unemployment insurance has been widely discussed in the United States during the last fifteen years in

¹ National Industrial Conference Board--"Unemployment Benefits and Insurance" p. 78

federal, state, and municipal legislative bodies, and the subject has been thoroughly investigated by several committees. As yet there is no state insurance scheme in operation. The State of Wisconsin, however, during February of this year, passed a compulsory work insurance law, the first to be enacted by any state in the Union, which will not become effective until July 1, 1933.

Wisconsin Bill

The expense of this plan must be borne by the employers although employees may contribute to the fund if they so desire. As there is no provision that the amount of benefit to be paid shall be increased because of employee contributions, it is extremely likely that the employers will be called upon to bear the entire cost of the scheme. The law will be mandatory upon employers of more than ten employees, except in the case of concerns having more than 175,000 persons in their employ, who have already established state-approved voluntary systems. The provisions of the bill are:¹

Scope: The law applies to employers of more than ten employees, with specific exemptions for farmers, certain seasonal industries, and domestic service. Students working during vacations are not included.

Contributions: Contributions will be made by employers at the rate of two per cent of the weekly pay

1 Boston Post, February 20, 1932--"Work Insurance"

roll, to be reduced to one percent when the average reserve per employee reaches \$55 and ended when the average reserve reaches \$75. Employees may contribute to the fund if they so desire.

Benefits: Benefits shall not be paid to unemployed workers for more than ten weeks in any year.

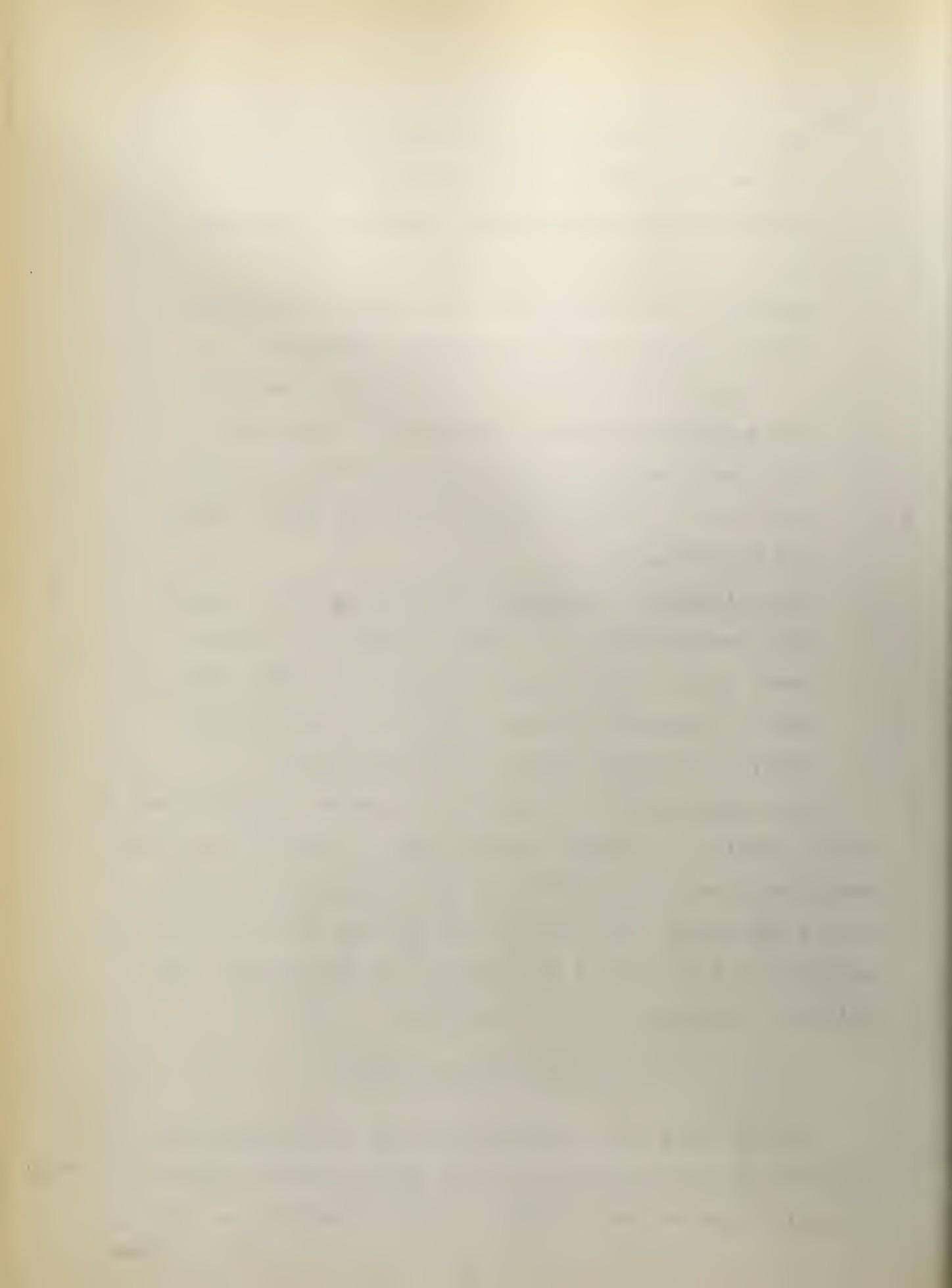
Benefits shall not be more than one-half of the employee's regular wage and shall not exceed \$10 a week or be less than \$5 a week for total unemployment. Persons earning more than \$1500 a year are not affected.

Eligibility for benefits: No benefits will be paid where an employee is discharged because of misconduct, quits voluntarily, or because of a trade dispute. Unemployed workers will not be eligible for benefits if they refuse suitable employment.

The restrictions of this act are severe: benefits may not be received for more than ten weeks in any year, and they shall not exceed \$100 in all; no one who quits work voluntarily can expect remuneration; the refusal on the part of the employee to accept other work that he is able to do, automatically cancels his right to benefit.

INCREASED INTEREST SHOWN

Though there are no compulsory plans in operation at present, increased interest in the subject has been exhibited recently. Events that indicate intense interest are: the ap-



pointment of state and federal commissions to investigate the possibilities of insurance schemes; the passage of the Wagner Bill for better employment statistics; proposals to permit private companies to write unemployment insurance; and the recommendation for a system of insurance by the Six-state Board.

Commissions for Investigation

The United States Senate, in 1931, appointed a committee of three members to make a study of all known types of unemployment insurance systems, including the private plans in operation in the United States as well as the systems established in foreign countries.

Legislative committees to study the possibilities of unemployment insurance were appointed in several states during the last year. California, Massachusetts, New York, Ohio, Oregon, and Wisconsin considered that the question was important enough to warrant careful investigation.

The Committee of Continuity of Employment

Recognizing the seriousness of general economic conditions, the Chamber of Commerce of the United States, in January 1931, authorized the appointment of a special Committee on Continuity of Business and Employment to study the possibilities of business and employment stabilization. The scope of the committee's activities was limited to a study of the possibilities for relieving unemployment distress by employment stabilization, employment assurance, and employment insurance.

The Wagner Bill

Under the provisions of the Wagner Bill, passed by Congress in 1930, the United States Bureau of Labor Statistics was directed to collect and publish monthly statistics on employment conditions in government service and in industry. An appropriation was made for this work, but it was cut from the budget later. The passage of this bill indicates a desire by public authorities to get definite facts about the extent of unemployment.

Private Insurance Companies

No private company is permitted to underwrite unemployment insurance. Several bills have been introduced in various states, but have always been defeated. A bill for this purpose, introduced in New York in 1931, passed both houses, but was later vetoed by the governor. The introduction of this measure, year after year, indicates that at least one company¹ is interested in experimenting with this type of insurance. This company recognizes that there is no statistical data upon which to base an insurance plan, but it feels confident that the necessary data will be derived from experience.

Recommendation of Six-State Board²

In February of this year, the Interstate Commission of Unemployment Insurance composed of representatives of the Governors of New York, Ohio, Massachusetts, Pennsylvania, New

1 Bryce M. Stewart--"Unemployment Benefits in the United States" p. 99

2 Boston Post, February 25, 1932--"Offers Plan of Job Insurance"

Jersey and Connecticut recommended the adoption of a system of unemployment insurance.

The scheme recommended resembles the Wisconsin Bill in many particulars: each employer would contribute two per cent of his pay roll; and the maximum benefits would be \$10 per week for a maximum period of ten weeks in a year. Under this scheme, however, there would be no pooling of reserves by the various employers: that is, the financial responsibility of each employer would be limited to the amount of the unemployment reserve set up by him. The fund would be administered by a board of three members, representing labor, industry, and the public.

The proposal of this plan indicates that the pressing need of an intelligent employment program is generally recognized.

PROPOSED LEGISLATION

Until the year 1931, the number of bills designed to provide for unemployment relief was comparatively small and few of them were given much consideration. From 1915 to 1930, only twenty bills on compulsory unemployment insurance were introduced in seven state legislatures: namely: Connecticut, Massachusetts, Minnesota, New York, Pennsylvania, South Carolina, and Wisconsin. During the 1931 session, 33 bills¹ proposing state systems of compulsory insurance were introduced in seventeen state legislatures, including California, Colo-

¹ Labor Legislation Review, September 1931 p. 332

rado, Connecticut, Illinois, Indiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, New York, North Dakota, Ohio, Pennsylvania, Washington, and Wisconsin.

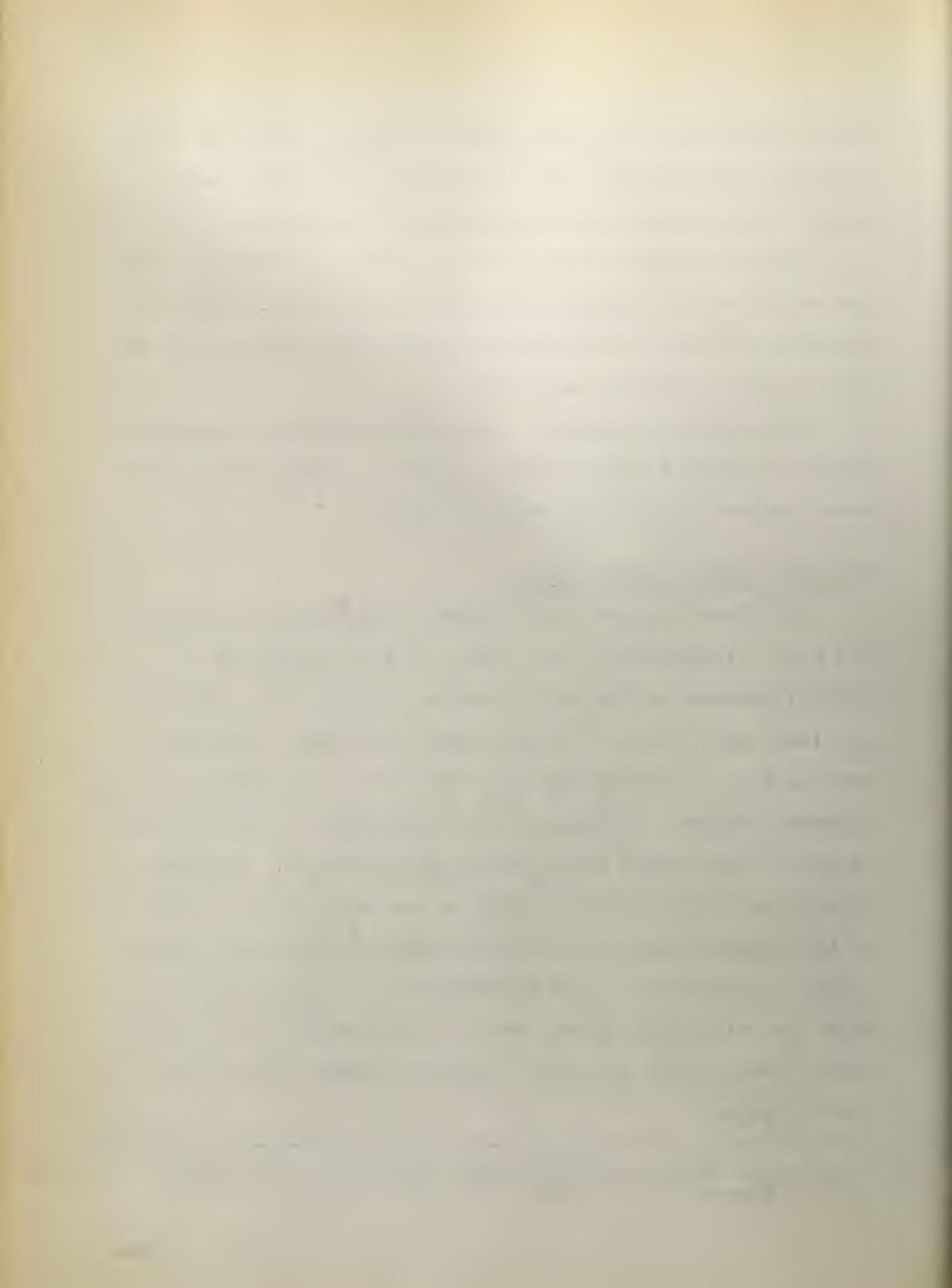
Of these proposed bills, only one has provided for joint contributions by employers, employees, and state. The other proposed schemes have been non-contributory; that is, the employer was to bear the entire cost.

Three bills, designed to provide unemployment compensation, have been introduced into Congress, none of which was ever advanced beyond the committee stage.

Proposed Federal Legislation

The first proposal¹ for federal unemployment insurance was a bill introduced in the House of Representatives in 1926 by Representative Victor Berger of Wisconsin. The bill provided for a Bureau of Unemployment Insurance under a director, with a considerable expansion of the United States Employment Service. Practically all employees, eighteen years of age or over, were to be covered by insurance. Benefits were to be given after two weeks at the rate of 50 per cent of the average weekly wage earned during the six months preceding unemployment. Such benefits were not to be paid for more than six months in any year. Contributions were to be made by employers, employees, and the federal treasury in equal shares.

¹ Bryce M. Stewart--"Unemployment Benefits in the United States" p. 573



During the 1931 session of Congress, two unemployment insurance bills were introduced.¹ One of these, introduced by Senator Wagner of New York, provided for federal aid to state insurance funds, under the supervision of the United States Employment Service. The bill authorized an annual appropriation of \$100,000,000 to be available for such unemployment funds as might be constituted by the various states. The contribution of the federal government was in no case to be more than one-third of the state insurance fund, and was to be apportioned in whatever proportion the number of wage-earners in each state bore to the total number of wage-earners in all the states. In order to qualify for an allotment of the appropriation, each state would be required to create an insurance fund, and to co-operate with the United States Employment Service in administering the fund. State plans would be subject to approval by the director of the Employment Service who had power to withhold or revoke approval of any plan.

Another plan introduced by Representative La Guardia of New York attacked the problem from a different angle. His bill provided that each employed person in the United States should be taxed five cents every week and that every employer should pay ten cents weekly for each of his employees; that taxes should be levied on the gross income from sound moving-pictures, and also on investments in the United States by persons residing in foreign countries. This revenue would be paid in-

¹ National Industrial Conference Board--"Unemployment Benefits and Insurance" pp. 79-82

to a treasury fund known as the Unemployment Insurance Fund, under the control of the Secretary of the Treasury. The amounts and duration of benefits were to be determined by a Federal Employment Commission of three members which was to be represented by a deputy in each federal reserve district. All persons, twenty-one years old and over, who paid the prescribed tax for not less than thirty weeks in the two years preceding application, were entitled to benefits. Persons liable and failing to pay a tax would be subject to penalty.

Proposed State Legislation

In January 1916, the first unemployment insurance bill in the United States was introduced in Massachusetts. It met with great opposition and was not reported out of committee. The main features of the bill appear to have been based on the British Unemployment Insurance Act. The provisions¹ were:

It would have applied to all employees over eighteen years of age earning \$25 a week or less.

Contributions were to be made jointly: one-quarter by the employer, one-quarter by the employee, and one-half by the state. To be eligible for benefits, the applicant must have had at least ten weeks employment in each of the preceding three years, and must have paid in at least twenty-six weekly contributions.

1 Bryce M. Stewart--"Unemployment Benefits in the United States" p. 686

Benefits were to be scaled from \$3.50 to \$7 weekly, according to the accustomed salary of the insured, and were limited to ten weeks in any insurance year.

A second bill was introduced in Massachusetts in 1922 and was referred to a special committee on unemployment.¹ The features of this bill, which provided for a non-contributory plan, were entirely different from the 1916 bill. The committee reported unanimously against compulsory unemployment insurance. The bill was next introduced in 1928, and from then on has been presented in practically the same form each year.

All bills presented to the various state legislatures, with the exception of the first Massachusetts bill have definitely put all the burden on employers, without employee or state contributions. Following this trend of public thought, the American Association for Labor Legislation drafted a "Model Bill" in 1930, which has been introduced, substantially unchanged, in eleven legislatures. With the exception of Wisconsin, all state legislatures have voted adversely on the bill. The bill will be sponsored again this year by the Association as the basis for state legislation.

American Plan for Unemployment Reserve Funds²

The basic idea of the bill is to establish, by payment of contributions by employers, a fund from which limited compen-

1 National Industrial Conference Board--"Unemployment Benefits and Insurance" p. 85

2 American Labor Year Book, 1931 p. 178

sation could be paid to unemployed workers for a restricted period. The complete draft embodies thirty-one sections, the principal features of which are:

Liability for payments of benefits: Benefits shall be paid to every unemployed person by the industry fund to which his last employer belongs, or by his last employer if he has been exempted from the payment of contributions to the fund.

Contributions: Contributions shall be paid solely by employers at the rate of 1 1/2 per cent of the wages paid to employees.

Benefits: Benefits shall be paid after a waiting period of two weeks. The maximum amount shall be \$10 a week to an employee, eighteen years or older, and \$5 to employees under eighteen years, such relief not to exceed 60 per cent of the regular wages. Benefits may not be paid for more than thirteen weeks in a calendar year, nor in a greater ratio than one week of benefits to every four weeks of employment by one or more employers in the state during the two preceding calendar years.

Eligibility for benefits: Benefits shall not be paid if the employee has lost his job through misconduct or if he left it voluntarily without reasonable cause, or because of a trade dispute. The employed person shall receive benefits only:
(1) if he has been employed by one or more em-

ployers in the state for not less than 26 weeks during the preceding two years; and (2) while he is capable of and available for employment and unable to find it.

Administration: The act shall be administered by the department of labor, and the commissioner shall appoint for two years an employment advisory committee, consisting of an equal number of representatives of employers and employees.

Industry Funds: Upon classification of industries, the commissioner shall provide a board of not less than five members to be known as the Employment Stabilization Board for each industry. The Board is to fix benefits as near the amount of maximum provided as the condition of the industry fund of each class permits; it is to award dividends to employers based on their experience in maintaining regular employment: it may create an employment office to serve employers in industry.

This bill contains an important stipulation: individual employers or companies offering equivalent or better schemes under adequate guarantees or safeguards would not be required to be members of the compulsory state plan. In this way, employers, who are interested in developing schemes providing more substantial benefits, would not be restrained from continued experimentation with private plans.

SUMMARY

Proposals have been considered in both national and state legislative bodies to establish some system of unemployment insurance, but with the exception of the State of Wisconsin, no legislation on unemployment insurance has been enacted.

Increased interest in the possibility of applying insurance against unemployment has been manifested during the last few years by different branches of the government and by private insurance companies.

With the exception of the first Massachusetts bill, proposed legislation would place the burden of supporting benefit plans upon employers. The American Plan for Unemployment Reserve Funds has been used as the basis for most of the proposed state legislation. Since its provisions are in line with public opinion, it will be advocated again in several states this year.

CHAPTER IX

TRADE-UNION PLANS

The first attempts to provide relief for the unemployed in the United States were instigated by a few small trade unions, whose members were immigrants from European countries where such funds were in operation. The early trade unions established aid funds for the unemployed mainly to prevent the disfranchisement of their members who were compelled to accept poor relief. They also saw in unemployment assistance a means of bettering the condition of the worker and of increasing their own strength and membership. The first of these funds was established in 1884¹ and since that time both international and local unions have provided relief. The extension of such plans has not been so rapid here as in Europe, since other forms of aid have apparently been considered more important and better justified. More interest has been shown by the unions, however, in recent years as 30 of the plans in existence now were established after 1919.

In times of depression practically all trade unions render assistance to their unemployed members. As a result, many emergency relief schemes are organized during periods of severe unemployment which are discontinued when conditions become normal.

Unemployment-benefit plans of a permanent nature have been adopted by both international and local unions, but the local

1 Bryce M. Stewart--"Unemployment Benefits in the United States" p. 82

schemes have been numerous. In April 1931, plans of this character were maintained by three international unions and by forty-five local unions. The total membership of unions maintaining relief funds is approximately 45,000, less than 1 1/2 per cent of the total trade-union membership. However, only about 35,000 members are covered by the plans.

International Plans

Eleven international unions have been known to pay out-of-work benefits, but at the present time only three are paying cash benefits from their own resources for unemployment relief. These are¹ the Deutsch-Amerikanische Typographia, the Siderographers and the Diamond Workers. All three are of small membership and specialized craftsmanship.

The Deutsch-Amerikanische Typographia, with a membership of 541, is composed of printers of German publications. The unemployment benefit plan was centralized in 1842, but the fund is financed by each local union from its general fund. Each year all locals report to the Typographia headquarters the amount remaining in their funds and the central office provides for equalization. Local unions then exchange payments, those who saved larger amounts pay to those who had heavier losses until the reserve fund of each union represents the same amount per member. The essentials of the plan² are:

Administration: The general secretary of the or-

1 United States Department of Labor--"Unemployment Benefits in the United States and Unemployment Insurance in Foreign Countries" p. 19

2 American Federation of Labor--"Unions Provide Against Unemployment" p. 46

ganization has control only for administrative purposes. He determines equalization payments, but all local administrative functions are performed by the local unions.

Means of financing: The benefit fund is financed by the local unions from their general funds, at the rate of \$1.85 monthly per member. Once a year funds of the locals are equalized.

Benefits: \$6 weekly, to begin at once, and continue for not over 16 weeks or \$96 in one year and not more than \$24 in any one quarter.

Reporting: Members must report daily to receive benefits.

Work at other trades: Members forfeit benefits if working at other trades.

The International Association of Siderographers, with a membership of less than 100, is engaged in a special branch of engraving. The unemployment-benefit plan was established in 1913 and its main features¹ are:

Administration: By international officers.

Contributions: Funds are contributed by the union only at the rate of 15 cents a month for each member.

Benefits: Members are not eligible until they have worked at their trade for two months during the year.

After this requirement is met, benefits may be re-

1 American Federation of Labor--"Unions Provide Against Unemployment" p. 4

ceived as soon as the member is unemployed. Rate of benefit is set at \$5 weekly, for not more than 26 weeks in a year.

Reporting: Members receiving benefit must report to the President once a week.

The Diamond Workers, though on an international basis, are concentrated in New York City. The plan was established in 1912 and functions¹ as follows:

Administration: By officers of the union.

Contributions: By the union only, at the weekly rate of 50 cents per member, set aside from the regular dues.

Benefits: After a waiting period of three weeks, benefits are paid at the rate of \$9 a week for not more than 16 weeks in a year.

These unions are composed for the most part of foreign workmen who regard benefits as insurance for which they are willing to pay. The amounts of benefits received are comparatively small: over a five-year period ending in 1926, the average yearly benefit received by unemployed Siderographers was \$78.65, and no payments have been made since 1926. The Diamond Workers, over a ten-year period ending in 1923, extended benefit every year to an average of 210 unemployed members at the rate of \$47.35 each.

1 American Federation of Labor--"Unions Provide Against Unemployment" p. 3

Local Plans

The unemployment plans maintained by the local unions are similar to those of the international unions. Most unions have occasionally paid unemployment benefits, but at present only forty-five local unions¹ are protecting their members by unemployment relief. The printing trades dominate, 31 of the 45 plans being maintained by them. There are two reasons for the predominance of the local plans. First, the small groups can more easily be persuaded to adopt a benefit plan, because they know they will have to give help to their unemployed members. Then, too, the administration of schemes can be carried out more successfully by a small local group than by a national group with a scattered membership.

The plans are similar in purpose; that is, the members are willing to assess themselves in order to assist members who may be out of work. The differences in the plans are largely concerned with the amount and duration of benefits.

OPERATION OF TRADE-UNION PLANS

Source of Funds

The only source from which benefits can be paid is from the accumulated fund supported by the members of the union. Union out-of-work benefits are most frequently financed through regular dues² or assessments to a special benefit fund. The

1 Monthly Labor Review, December 1931 p. 42

2 Bryce M. Stewart--"Unemployment Benefits in the United States" pp. 107-112

.fund may be set up through payments of a specified part of the organization dues, usually 50 cents each week, or a percentage of earnings while employed, or by regular assessments apart from dues. Some unions stipulate the payment of regular assessments while others levy special assessments when the condition of their funds demands it. A few have made no provision for special funds but have paid benefits from the general fund.

Contributions are usually made by all members of the group providing the benefits, regardless of whether they are immediately eligible for relief.

The contribution rates vary widely, because they have been determined by consideration of the amount that could be collected rather than on an actuarial basis.

Benefits

The methods of meeting the different unemployment risks have differed markedly among the unions. The compensation for seasonal unemployment has been limited by some unions to benefits only in dull seasons of the trade, and other unions in order to minimize demands on the funds have treated the problem in exactly the opposite way, by excluding the dull season from compensation.¹

Cyclical unemployment has caused the adoption of many special benefit plans which have been operated after the de-

¹ Monthly Labor Review, December 1931 p. 42-44

pression had passed. During times of depression, rates of benefit usually have been increased temporarily and waiting periods have been reduced.

Technological changes, particularly in the printing trades have placed heavy demands on unemployment funds. A few unions, unable to finance their plans under such adverse conditions, have been compelled to abandon them.

The rate of benefit paid has little scientific basis. It represents either the estimated least amount an unemployed person can get along on, or the largest amount which can be paid from whatever income the members will provide. A few plans maintain an elaborate scale of benefits based on occupation. Every plan provides for a higher rate of benefit for members of long standing; many differentiate between members with dependents and those with none.

Benefits provided under these plans range from \$4.00 a week to as high as \$35, but in most instances the maximum benefit is not over \$20.

A differential plan which reduces the benefit rate the longer unemployment lasts has served to keep down costs and to discourage members from remaining on the unemployment roll.

Eligibility for Benefits

Practically all unions require that before a member is eligible to draw benefits, he must have belonged to the union¹ a specified length of time, usually one year, and that he must

1 Bryce M. Stewart--"Unemployment Benefits in the United States" p. 158-162

have kept himself in good standing for a definite, though usually shorter period.

Most plans provide that unemployment shall be counted only from the day the member registers himself as out of work, and that benefits will not be paid until the expiration of a specified waiting period.

The most effective plan for reducing costs, is the requirement that members must report at the union office at designated times and must accept such employment as is offered.

Many plans state that if the beneficiary obtains work for two or more days in the week at any other job, his right to benefit for that week lapses.

Administration

Trade-union out-of-work benefit-plans are of two kinds, international and local. This difference has not affected the administrative machinery particularly, because the international plans have operated through the local branches.

The machinery required for administering the plans is not elaborate and they usually are administered by an executive council, by a special committee of the union, or by one or more appointed officials.

General Experience

Few unions with out-of-work benefit plans which have operated over a long period have not, at some time or other, had to consider the problem of the demands exceeding the income of the funds. Lacking substantial reserves, most of them

have resorted to extra assessments and eventually have been faced with the choice of increasing contributions, decreasing benefits, or giving up the plan entirely.

Few unions, although they have had the necessary data for determining the extent of unemployment, have made serious attempts to maintain permanent statistics concerning the extent and incidence of unemployment.

SUMMARY

Provision of out-of-work benefits began with the efforts of the trade union members to protect themselves against loss of income caused by unemployment. Financial aid is given all members of unions whenever needed, but at present only three international and forty-five local unions have permanent unemployment-benefit plans.

All trade-union plans are similar in operation; that is, funds are contributed from employed members to be used in providing relief for unemployed members.

CHAPTER X

JOINT-AGREEMENT PLANS

Joint plans for unemployment benefits are found only in the United States. As the name indicates, joint-agreement plans are those established by formal agreements between the employers and trade unions to pay unemployment benefits to union members. The terms are thus a matter of contract and are obligatory upon the parties during the period fixed in the contract. Invariably the union has been the promotor of these schemes for the same reason it has organized union out-of-work benefit plans, to provide substantial relief in bad times to its members.

The great bulk of joint agreement plans have been organized by the needle trades such as the clothing industries and lace-making trades. These industries are highly seasonal, and the workers felt that with their small annual earnings, they needed the financial assistance of their employers.

Development of Plans

At first the plans were intended to provide a guarantee of employment. From the establishment of the first plan¹ in 1894 until 1923, no further protection was demanded by the unions. In 1923, a joint plan to provide unemployment benefits in the Chicago men's clothing industry was promoted under the leadership of the Amalgamated Clothing Workers of America.

1 Bryce M. Stewart--"Unemployment Benefits in the United States" p. 92

This union was well organized and exerted powerful influence in its industry. The plan of the Amalgamated Clothing Workers was adopted rapidly by unions of related industries, the ladies' garment industry, lace-makers, hatters, cleaners and dyers. Eight plans were discontinued between 1927 and 1930, either because of labor disputes or depressed conditions.

Extent of Present Coverage

In April 1931, there were sixteen plans¹ in operation, nine of them connected with the clothing trades and five with the lace-making trades. Approximately 65,000 industrial workers are covered by existing plans.

OPERATION OF PLANS

Since each plan is established by an individual agreement between the unions and the employers, the provisions of the plans differ according to local conditions. In general all most all the plans embody the same features.

Contributions

The methods of contributing vary in the different industries. In all except the lace industry, contributions have been a specified percentage of earnings by the employees and of pay roll by the employers. Usually the employers contribute at least two-thirds of the fund and the employees not more than one-third. In the lace trades the method of regu-

¹ Monthly Labor Review, December 1931 p. 39

lar flat contributions is used, the customary weekly contribution being fifty cents for each member.

When the contribution method is employed, the usual rate is three per cent of the pay roll, divided by agreement between the employer and employees.

The tendency seems to be for the employers to pay an increasing share of the expense of supporting the fund; in some agreements they meet all the costs.

Benefits

Some of the unemployment-benefit plans do not segregate payments of benefits from wages. The majority of joint-agreement plans provide for separate unemployment benefits. The rates of benefit vary under different plans. In the New York men's clothing industry, fixed rates of benefit are not paid, but aid is given according to the needs of the unemployed persons. In most of the other funds, although the collection of contributions is most frequently a percentage of earnings, benefits generally are based on flat rate payments, with a distinction between the amounts allowed to men and to women.¹

Nearly all of the agreements limit the benefit period in any year, but the term for which compensation may be given varies under the different plans.

Eligibility to Benefits

Good standing in the union for a stated period, and full

¹ Bryce M. Stewart--"Unemployment Benefits in the United States" p. 135

payment of contributions while employed are qualifications specified in all plans. When unemployed, workers are required to register at the local employment exchanges, and take any suitable employment which may be offered, under penalty of loss of payments.

A waiting period of one or two weeks is usually demanded before the unemployed person is eligible for benefits.

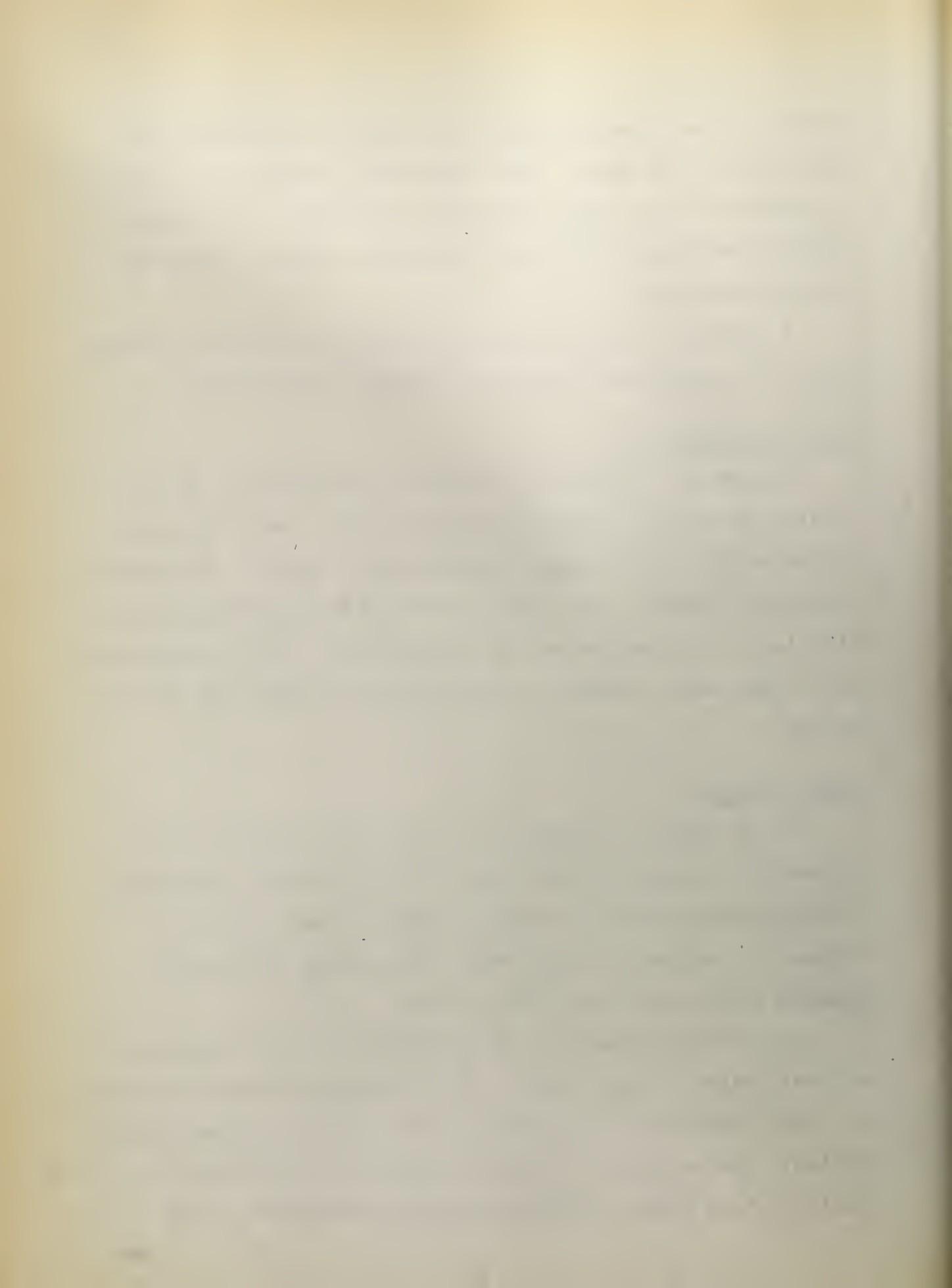
Employment Service

Employment offices are especially essential to the successful operation of joint-agreement plans. Since the unemployed workers are required to accept any suitable employment offered or forfeit their right to benefit, an employment service is the only method by which supervision of the unemployed and of the establishments covered by the industry can be maintained.

Administration

In the smaller concerns, the plans are administered by either the employer or the union. In the larger industries, the interested parties are not allowed to administer the scheme, all authority being vested in a group of trustees equally representative of both groups.

If the plan relates to one concern the fund is segregated and maintained in that plant. If the scheme covers more than one firm, usually the contributions of all establishments are pooled. The pooling of funds has met with considerable opposition by a number of large and well-established firms, who



claim their funds should not be used to assist unemployed workers in weaker concerns.¹

In order to keep the fund on a satisfactory basis, the accumulation of a reserve is essential. To accomplish this, contributions are required for a considerable length of time before payment of benefits is allowed.

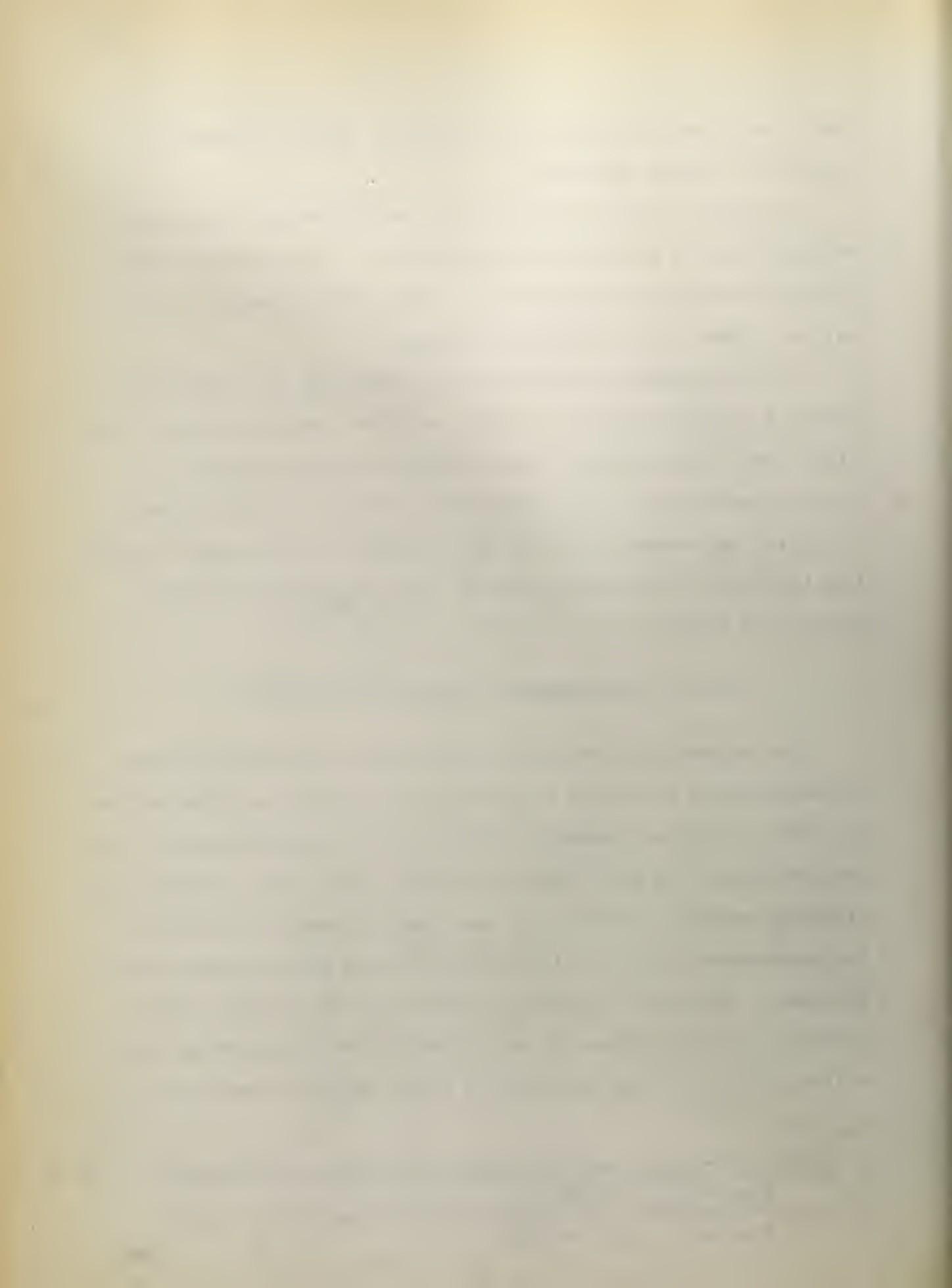
Joint-agreement plans have the advantage of securing interest and participation of both employer and employees. Some plans have been operated very successfully even during the present depression. The oldest and perhaps the best known of the joint-agreement plans is that operated in the men's clothing industry by agreement between the Amalgamated Clothing Workers of America and the firms in the market.

PLAN OF AMALGAMATED WORKERS OF AMERICA²

The agreement between the Amalgamated Clothing Workers of America and the firms in the Chicago market was started in May 1923. Similar arrangements were made by manufacturers in Rochester and New York during the year 1928. The Chicago men's clothing market is made up of wholesale clothiers manufacturing ready-made suits, and retail tailoring shops making suits to order. When the plan was organized 27,000 workers were covered, but the number of employees in the industry has declined, until in 1929 only about 13,000 workers came within the plan.

1 Bryce M. Stewart--"Unemployment Benefits in the United States" p. 128

2 Bryce M. Stewart--"Unemployment Benefits in the United States" pp. 401-404



Character of Plan

Under the provisions of the plan unemployment benefits are paid to union members who meet the requirements specified. For members employed in shops covered by the agreement, participation in the plan is compulsory; that is, they are required to pay certain sums into the fund, and in turn are entitled to receive benefits.

Source of Fund

On May 1, 1928, contributions by the employer were set at 3 per cent of the pay roll and those of union workers at 1 1/2 per cent of their earnings. Before that time the employers had contributed 1 1/2 per cent of the pay roll, and the employees contributed the same percentage of their wages. It is stipulated that when the balance in favor of any firm reaches a sum equivalent to the maximum benefits which it is estimated will be needed during a two-year period, payments into the fund shall cease until the fund falls below the equivalent of one year's maximum payment, at which time contributions shall be resumed at the regular rate.

When the plan was established, a substantial reserve was built up by the accumulated contributions, since no payments of benefits were permitted for one year.

Benefits

Benefit originally was set at 40 per cent of full-time wages with \$20 a week as a maximum. In May 1925, the provisions for benefits were changed, and were set at 30 per cent

of full-time wages with a maximum payment of \$15 a week.

At present the maximum benefit period is limited to three and three-quarters weeks in any one year. A person may receive benefits for only one week for every ten contributions to the fund in a given season.

Eligibility for Benefits

In order to be eligible to receive benefits, the member must be unemployed involuntarily; he must not have refused suitable employment; must not have exhausted his right to benefit; and must not be unemployed because of trade disputes. Good standing in the union, registration at the employment office, and regular contributions up to ten payments for each week to each week and one-half of benefits payable are also required.

On the basis of a forty-four hour week, a waiting period of forty-four hours is required before persons may receive benefits. Every hour lost in a given week is counted, but over-time hours cancel the same number of hours lost.

In every case, eligibility to receive benefits is restored at the beginning of each season.

Administration

Contributions of all shops are pooled and administered for the benefit of all the employees in the industry by a board of trustees composed of union representatives. Instead of having one common fund, there are six separate funds: one for the contractors; one for each of the three largest com-

panies in the industry; one for the rest of the inside manufacturers; and the last for non-association inside shops.

The clerical work incident to the collection and disbursement of the fund is carried on in a central office. A complete record of each member is kept, based on the weekly pay roll of the individual employers.

To simplify the bookkeeping procedure, the beneficiary receives only two checks a year for whatever sum is due him, one in April and one in November.

General Experience

Distress among unemployed members who had exhausted their rights to benefit led to the payment of special benefits. Late in 1930 and again in 1931, special benefits were authorized to be paid, the sum to be raised by an assessment of \$8 on every member in employment.

During normal years the plan functioned successfully, but with the continued depression, the fund has not been able to care for the unemployed members for the whole period of unemployment.

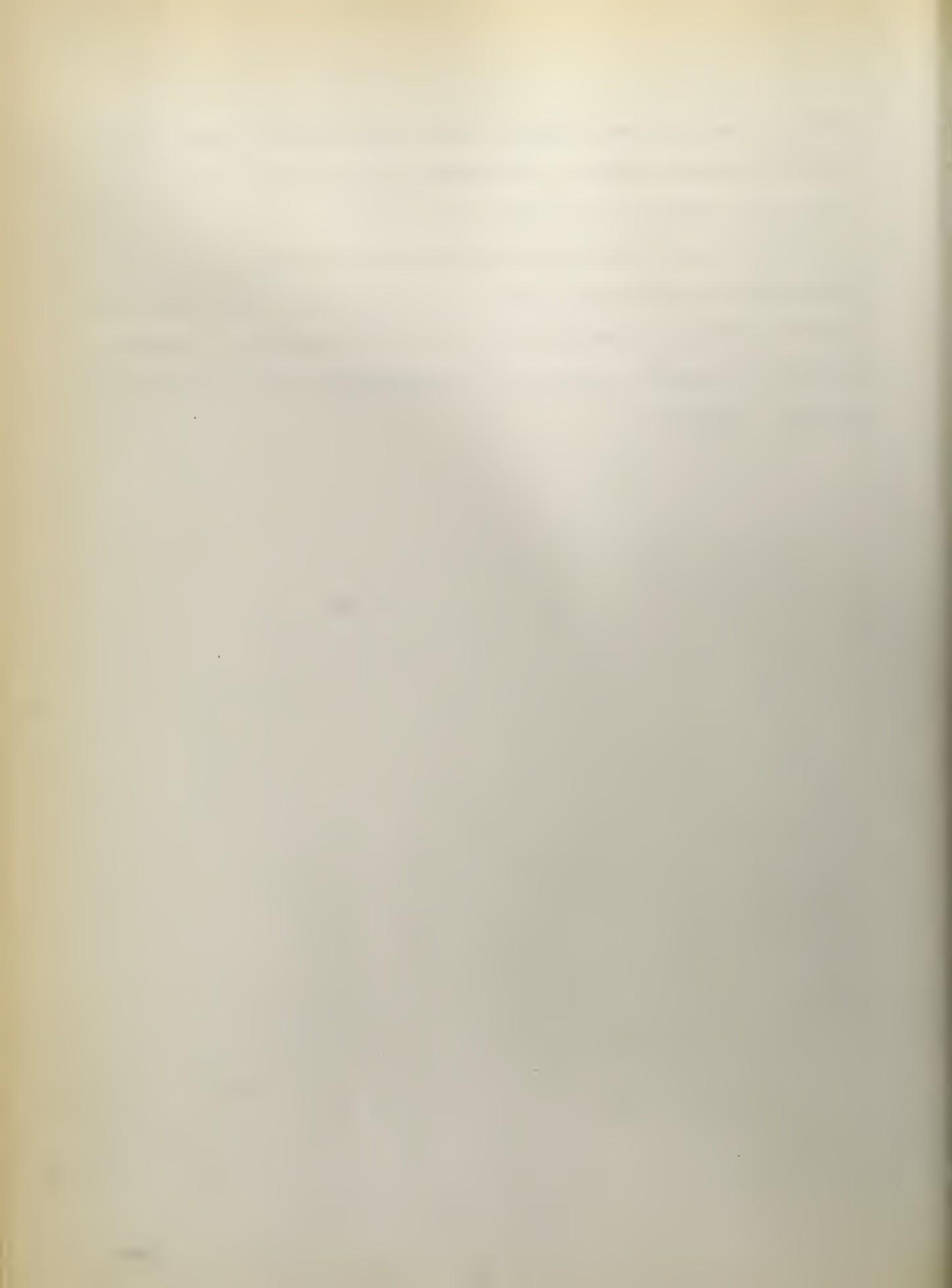
SUMMARY

Contracts between trade unions and employers to provide compensation for unemployment have led to the establishment of special funds. These joint-agreement plans are found in the clothing industries and related trades. Only sixteen plans are in operation, which cover approximately 65,000 workers.

The various plans are similar: each provides for contri-

butions from employed members: each pays benefits during unemployed periods; definite requirements must be met before the unemployed member is eligible for benefits.

The plan of the Amalgamated Workers of America is perhaps the most successful joint-agreement plan. This union is firmly established and influential in its industry. However, during the present depression, the financing of the scheme has become a problem.



CHAPTER XI

COMPANY PLANS

Trade-union and joint-agreement plans are important developments in the field of out-of-work compensation, and private plans set up by individual companies represent still another method of providing unemployment benefits.¹ The United States is one of the few countries in which employers have voluntarily experimented with unemployment funds. Company plans, though not numerous, have attracted considerable attention as a possible method of relieving the suffering caused by unemployment, and as a substitute for public unemployment insurance.

Development of Plans

Company plans have been initiated largely by employers interested in scientific management, but they have been adopted as a complementary part of a regularization program. Emphasis is placed on stabilization and the stress on payment of unemployment benefits is secondary in the minds of industrial leaders. A majority of plans were prompted by the conviction that every employer should do all in his power to provide employment security for employees and also some form of compensation for enforced idleness.

The immediate stimulus to the establishment of the majority of the funds can be found in acute unemployment conditions:

¹ Monthly Labor Review, December 1931 p. 31

for instance, the Dennison Manufacturing Company, the first to provide compensation for unemployment, established its fund immediately after the 1914-1915 slump: Leeds-Northrup Company set up its plan after the 1921 depression.

Present Coverage

Fifteen company plans exist at the present time, but one fund is not paying benefits yet. The potential coverage is much greater than the number of employees now eligible for benefits. It is estimated that eventually 226,000 employees will come within the scope of existing company plans, but at present these companies employ about 116,000 workers, approximately 50,000 of whom are eligible to benefits. The companies who have established unemployment benefit plans are:

Dennison Manufacturing Company
The Columbia Conserve Company
Dutchess Bleachery, Inc.
Rockland Finishing Company, Inc.
United Diamond Works, Inc.
Crocker-McElwain Company, Inc.
John A. Manning Paper Company, Inc.
General Electric Company
Procter and Gamble Company
Leeds-Northrup Company
Brown and Bailey Company
Fond du Lac Companies
Rochester, New York, Companies
Consolidated Water Power and Paper Company
S. C. Johnson and Son

With the exception of the General Electric Company, the companies who have set up such employer plans are small, but nationally known concerns with enviable reputations.

CHARACTERISTICS OF PLANS

Although all company plans have the same general objective of protecting the stable working forces of the individual companies, there is considerable variation in the methods employed to accomplish that purpose. There are three types of plans:¹ those which guarantee a specified amount of employment in a year, non-contributory plans with reserve funds, and joint-contribution plans.

Employment-Guarantee Plans

The distinguishing feature of employment guarantee plans is the emphasis placed on stabilization and on the provision of steady employment for those covered by the plans. The guarantee of employment is not a separate plan, but is a single feature in an industrial program which also includes arrangements for other kinds of social insurance and opportunities for purchase of company stock. The plans differ in the requirements for eligibility for benefits, but they are similar in many respects.² All guarantee continuous employment, and failing that, compensation for eligible employees. All costs incidental to the operation of the fund are treated as part of the current operating expenses. Companies having this type of plan are:

Procter and Gamble Company
Crocker-McElwain Company, Inc.
Columbia Conserve Company

1 National Industrial Conference Board--"Unemployment Benefits and Insurance" pp. 100-104

2 Monthly Labor Review, December 1931 pp. 32-34

Consolidated Water Power and Paper Company
S. C. Johnson and Son
United Diamond Works, Inc.

Under the Procter and Gamble plan, adopted in 1923 and covering 4788 workers, every employee whose yearly salary does not exceed \$2000, and who has at least six months' affiliation with the company, is guaranteed employment at full pay for at least forty-eight weeks each year.

The Crocker-McElwain Company has a joint employment-guarantee plan to which 300 workers are eligible. When the plan was adopted in 1921, factory employees were guaranteed 52 weeks of employment at full earnings. In 1931 the guarantee was reduced to 44 weeks with a further stipulation of not more than 80 per cent of full-time earnings.

The 700 eligible employees of the consolidated Water Power & Paper Company are guaranteed either continuous work or unemployment compensation of about one-third of their monthly wages.

In the Columbia Conserve Company, employees control more than 50 per cent of the stock and 144 permanent office and factory workers are on a salary basis. These employees are guaranteed full salary for 52 weeks yearly, including vacations.

The employment-guarantee plan of S. C. Johnson and Son protects 300 workers. Provision is made for payments to employees with six months' service at a daily fixed rate, up to a maximum of 200 days in a year.

The United Diamond Works, Inc. has no formal plan. From

1921 to the present depression, laid-off employees were paid a percentage of their wages out of surplus earnings for the entire unemployment period, but since the surplus was exhausted in March 1931, no benefits have been paid since.

Non-contributory Plans With Reserve Funds

This group includes several non-contributory plans which have set up reserve funds to provide benefits during unemployment. Initial reserves were established by the various companies and the cost of maintaining and operating the funds is borne wholly by them. Plans classified in this group are those of:

Dennison Manufacturing Company
Dutchess Bleachery, Inc.
Leeds-Northrup Company
Fond du Lac Companies

The Dennison Plan, the oldest and perhaps the best known plan, was adopted in 1916 and became effective in 1920. The company does not guarantee permanent employment to any employees, but it does guarantee a minimum wage to those retained in service. The number covered by the plan declined from 2300 in 1929 to 1600 in 1931. The fund had accumulated a reserve of \$147,000 by 1920, but unexpected demands reduced it to \$35,000 by March 1931.

The unemployment-benefit plan of the Dutchess Bleachery, Inc. protects 441 workers. It provided for an initial reserve fund which amounted to \$93,000 in 1922. This fund is being diminished rapidly, the balance in March 1931 being only \$11,000.

Leeds-Northrup Company has 900 employees eligible for unemployment benefits provided by a reserve fund which is maintained by deposits of 2 per cent of the pay roll. Benefits, based on a percentage of earnings, are paid for not more than 26 weeks in a year.

The Fond du Lac Plan, a co-operative agreement by three manufacturing concerns, has been in existence since 1930. The companies agreed to provide employment for all eligible employees if possible, and failing this, to pay 65 per cent of wages for a maximum of 100 days in a year. Each company contributes one per cent of its monthly pay roll to a special fund from which benefits are paid. The agreement is to run for five years, but any company may withdraw at the end of any year. This is the first attempt that has been made to shift employees from one company to another.

Joint-Contribution Plans

All plans which have been adopted during the current depression have been based on the idea of joint contributions by employees and employers. Some of the funds are completely on a contributory basis, while others are supported solely by the employer during normal times, with employee contributions required in periods of emergency. These contributory plans¹ include the plans of:

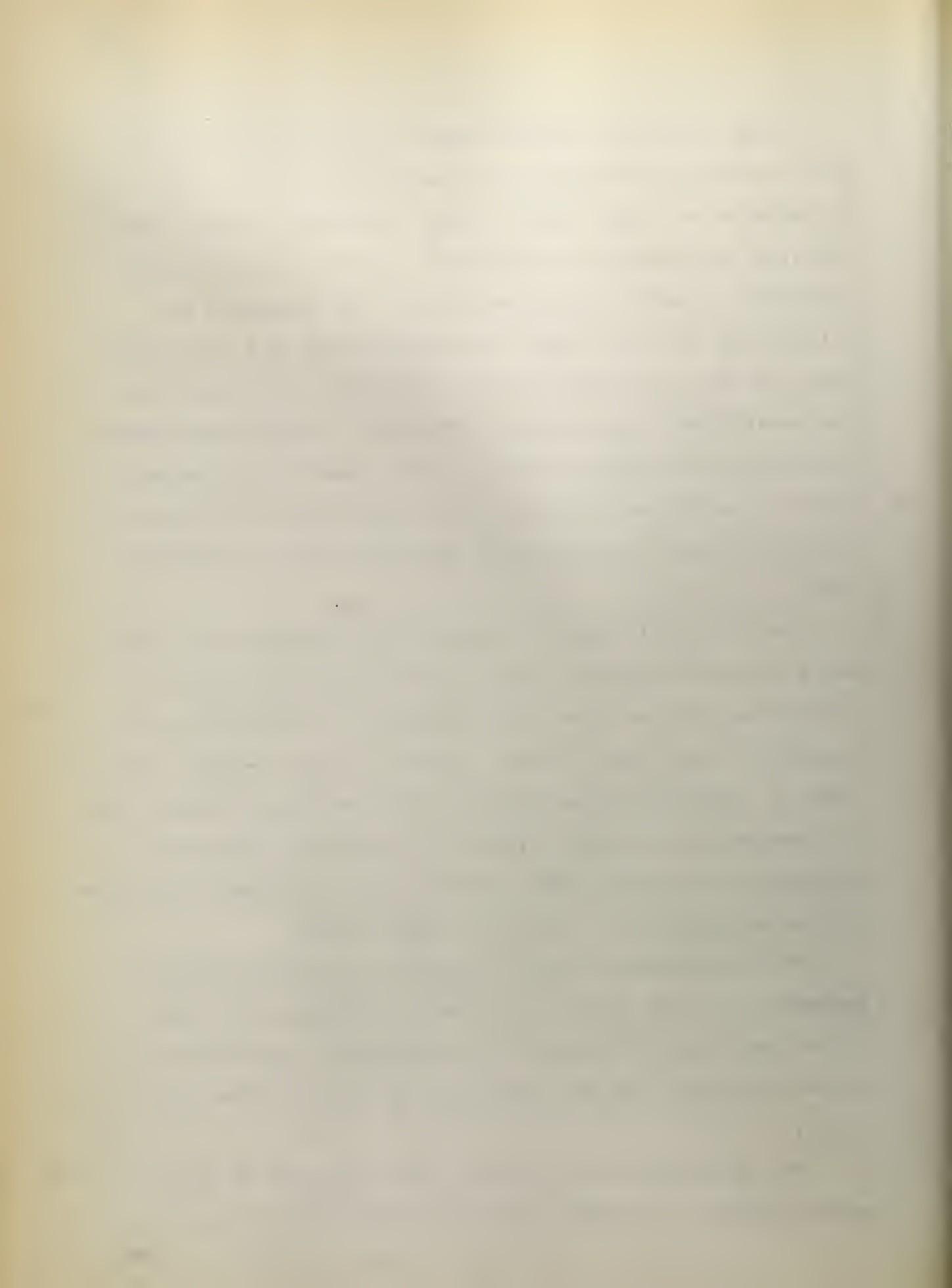
Brown and Bailey Company
John A. Manning Paper Company, Inc.
General Electric Company
Rochester Companies

Brown and Bailey Company began to accumulate a fund of \$7500 or twice the amount of the weekly pay roll in 1927, but no payments were made from the fund until April 1930. Later the plan was altered to provide for employee contributions whenever the fund falls below \$5,000. All employees are eligible and in slack times the company runs on a short-time basis for all, supplementing the earnings of employees from the benefit fund by an amount sufficient to make weekly wages 75 per cent of normal earnings. This company also guarantees that all employees displaced by new machinery will be paid 75 per cent of their regular wages until new jobs are found for them.

The plan of the John A. Manning Paper Company was originally a company supported plan, but in 1931 it was put on a contributory basis. The fund is financed by employee contributions of 1 per cent of wages, matched by the company, and in times of emergency augmented by a corresponding deduction from the earnings of salaried officials. The fund guarantees a minimum of four days' wages a week to each employee, determined by his contribution to the fund, plus interest.

The unemployment-benefit plans of the General Electric Company cover more than the combined employees of all the other companies. The plans are particularly significant because they protect so many persons, and will be discussed later.

The Rochester plan, set up in February 1931 by fourteen establishments is perhaps the most significant plan, in its



attempt to stabilize employment in an entire city.

General Experience

The objective of the various company plans is to provide for permanent employees. By no means all of the employees are eligible to share in the benefits.¹ Limitation of the number eligible by ruling out certain groups is the principle by which companies have kept costs of the plans within the amounts they wished to spend. Office workers and high salaried employees are excluded from participation. Length of service is another important qualification for eligibility.

There is little uniformity under the plans for the provision of benefits. Most of the plans do not demand a waiting period and benefits commence immediately. Under several plans, payments of benefits may be continued indefinitely; but in cases where there is no prospect of providing work for employees, the workers would be discharged, not laid off, and so would be ineligible for benefits. Plans unanimously adjust the benefit payments to a percentage of the normal wage of the recipient, with a differential rate for dependents. Minimum and maximum benefits are fixed in most of the plans.

The interest manifested by the government, employers and the public indicates that the development of this policy is being watched carefully. Some of the plans which are considered especially significant are: the Dennison Manufacturing Company's Unemployment Relief Fund, the oldest plan; the

¹ National Industrial Conference Board--"Unemployment Benefits and Insurance" pp. 109-111

plans of the General Electric Company, because of their wide coverage; and the Rochester group plan, the first attempt toward city-wide employment stabilization.

DENNISON MANUFACTURING COMPANY PLAN

An unemployment fund was established by the Dennison Manufacturing Company in 1916, varying amounts were added to it for the next three years, and the plan¹ was put into effect in March 1920.

Character of the Plan

The plan originally provided for payments of benefits to employees unemployed because of lack of work or whose earnings were reduced by transfer to a lower paying job. There was a waiting period of one day, and if the lay-off lasted two weeks, two days were not compensated.

In January 1931, the plan was changed to a guarantee of fifty per cent of the normal wage to workers without dependents, and seventy per cent to those with dependents.

Method of Financing

When the fund was established, the directors set aside \$20,000 which with subsequent contributions and interest amounted to \$147,000 by 1920. No appropriations have been made since then. The present plan provides that from the reserve the company may have set up. money will be paid out to an amount not exceeding \$35,000 during any twelve consecutive

¹ Dennison Manufacturing Company--"Unemployment-Relief Fund"

months, or \$50,000 during any thirty-six consecutive months. After the reserve is exhausted, further sums will, if conditions permit, be made available by the directors.

Benefits

Benefits for employees without dependents will be paid up to 50 per cent of the normal weekly pay, not to exceed \$18 nor be less than \$8. Employees with dependents are to receive up to 70 per cent of their wages but not more than \$24 nor less than \$8 weekly. Holidays are paid for if the weekly pay would otherwise be below 50 per cent of the normal wage. There is no waiting period.

Eligibility to Benefits

Permanent employees laid off for lack of work, so that the weekly wage falls below 70 per cent or 50 per cent or if transferred to jobs paying less than 85 per cent of the normal pay, are eligible. To be considered "permanent" six months' service with the company is required.

Unemployed workers are not required to report regularly at the factory, but are expected to hold themselves subject to call upon reasonable notice. An employee who obtains outside work would receive a benefit sufficient to bring such earnings up to the amount of his regular wage.

Administration

The plan is administered by the unemployment relief committee, consisting of voting members equally divided between management appointees and works committee appointees. If

there is any failure to come to an agreement on any question relative to unemployment relief, the question is submitted to the board of directors, whose decision is final.

Financial Experience

The company has published the following statistics concerning the operation of the plan for the year 1930:

Average number of employees	2377
Total pay roll	\$3,308,911.10
Average number of workers covered	1905
Total benefits paid	58,325.61
Balance in Fund at end of year	46,654.45

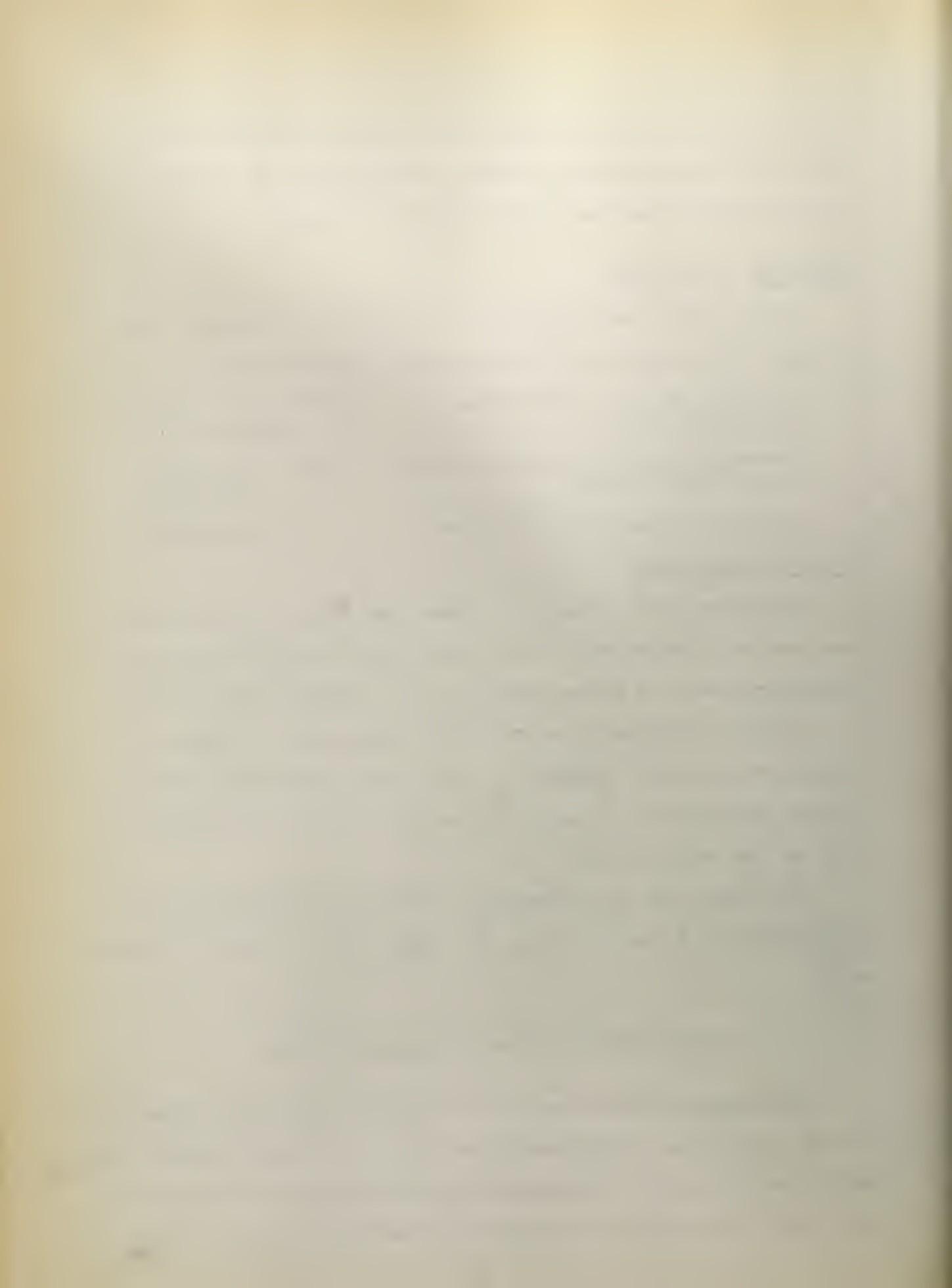
General Experience

Benefits paid through the year 1928 never exceeded one per cent of the pay roll. The plant now is operating on an emergency basis of forty hours a week. During normal times the company provides over-time work rather than to take on temporary workers. Recently, it has been necessary to discharge many workers. Those discharged receive a dismissal-wage of two weeks' pay.

The plan does not guarantee permanent employment, but a minimum wage is guaranteed to all employees retained on the pay roll.

PLANS OF THE GENERAL ELECTRIC COMPANY

The unemployment plans of the General Electric Company are of particular significance because of the large number of employees affected, approximately 78,000 persons being protected. The first plan was proposed to employees in all plants



manufacturing electrical supplies and was accepted by them.¹ Deductions from employees' pay for the formation of the fund began in August 1930, but no benefits were to be paid until contributions had been made for six months.

Character of First Plan

The scheme provided for compensation for total or partial unemployment, for loans to unemployed workers not to exceed \$200, and for relief to any employee or former employee of the company who had been retired on old-age or disability pension, after investigation by the administrators and for such a period as they deem advisable.

Participation in the plan is voluntary on the part of the employees. When an employee becomes a member, one per cent is deducted from his pay if he is receiving 50 per cent or more of his normal earnings.

Three per cent of the normal contributions paid into the trust fund by employees and by the company is to be available for payment to employees who are in need, and loans may be made for not more than 27 per cent of the normal contributions.

Administration: The plan is administered in units of each plant, and is in the hands of a board of not less than four nor more than sixteen members, half of whom are elected by the contributing employees and the other half appointed by the president of the General Electric Company, headed by a chairman elected by

¹ Monthly Labor Review, December 1931 pp. 36-38

the administrators themselves. The company guarantees interest at the rate of 5 per cent yearly on all funds and will bear the expense of administration for two years after the inauguration of the plan.

Method of financing: The plan provides for the establishment of the "unemployment-pension plan trust" accumulated from equal contributions by the company and the contributing employees. The participating employees contribute approximately 1 per cent of actual earnings for as long, in the case of each employee, as his earnings are more than 50 per cent of his normal wage. The company contributes an amount equivalent to that paid in by the contributing employees.

In times of unusual unemployment when payments from the trust fund amount to 2 per cent or more of the average weekly earnings of contributing employees, the administrators will notify the company of this fact, and normal contributions will cease. Upon this notification, the company will announce that an unemployment emergency has arisen and that as long as payments from the trust fund exceed 2 per cent of the average weekly earnings of contributing employees, these emergency contributions will be made: all employees of the company, including salaried employees and officials, will be required to contribute 1 per cent of their

earnings to the fund; the company will contribute an amount equal to the emergency contributions.

Eligibility for benefits: No employee is to receive benefits until he has contributed to the fund for six months. Any employee with one year's continuous service is eligible to participate in the plan.

Unemployment consists of temporary lay-off because of lack of work, but the administrators of the plan are to define unemployment.

Work at a regular job elsewhere bars an employee from receiving aid. The unemployed worker is not required to report at his place of employment regularly, but he is required to report in person for his pay check.

Benefits: After a waiting period, benefits to a contributing employee will be paid for not more than ten weeks in twelve consecutive months, at the rate of 50 per cent of his normal wage but not to exceed \$20.

If a contributing employee is working on a part-time basis and receiving less than 50 per cent of his normal wage, he may be eligible for benefits amounting to the difference between the amount he is receiving as wages and the maximum benefit to which he would be entitled if wholly unemployed.

Emergency Plan¹

In the fall of 1930 it was evident that employees would need aid before benefit payments became effective. A special emergency measure was declared on December 1, 1930, which operates in a manner similar to the provisions of the first plan, except for three important modifications which were adopted because payments were started before a substantial fund had accumulated:

1. All employees (except those in the lamp departments) are to contribute one per cent of their earnings.
2. Payments of benefits to be made only after the administrators are convinced that the employee is in need of funds.
3. The maximum weekly payment is to be \$15 instead of \$20.

On October 1931, it was announced that beginning in November 1931, the rate of contribution to the unemployment reserve fund would be increased from one to two per cent, and all persons on the pay roll should contribute.

Financial Experience

The company has published the following statistics² for the period from December 1, 1930 to April 30, 1931:

1 United States Department of Labor--"Unemployment Benefit Plans in the United States and Unemployment Insurance in Foreign Countries" pp. 58-63

2 Monthly Labor Review, December 1931 pp. 37-39

Average number of employees	78,380
Total pay roll	\$140,905,000.
	10,253
Number of workers receiving payments	
Total amount of payments	549,605.50
Balance in Fund	288,313.61

General Experience

The amount paid for benefits during the period from December 1, 1930 through April 30, 1931 was approximately .3 per cent of the total pay roll. Aid was given also in the form of loans to workers who had not contributed to the fund.

The company emphasizes the fact that the plan is experimental and may be changed later.

Guaranteed-Employment Plan

This plan, guaranteeing 50 weeks of work with not less than 30 hours each, was put into effect in the twelve lamp works of the company in January 1931. There are approximately 8000 employees in these plants and about 4500 workers are covered by the plan. Participation is optional, and all employees on an hourly or piece-work basis are eligible.

When a worker wishes to participate, he requests the company to withhold 1 per cent of his weekly earnings and to credit the amount deducted to his individual account. The company guarantees 5 per cent interest and the savings, including interest, belong to the employee; the total amount to his credit is paid to him if he leaves the company, to his beneficiary in case of death, or in the form of an additional pension upon retirement.

No payments have been made under this plan as yet.

ROCHESTER UNEMPLOYMENT-BENEFIT PLAN

This plan¹ was organized in Rochester, New York, in February 1931, by fourteen manufacturing concerns employing 26,000 workers, approximately one-third of the industrial employees in that city. The companies vary in size from 45 employees to 13,000 and include:

Eastman Kodak Company
Bausch & Lamb Optical Company
Stromberg Carlson Telephone Company
Rochester Telephone Corporation
Gleason Works
Taylor Instrument Company
Consolidated Tool Machine Corporation
Todd Company
Pfaudler Company
Vogt Manufacturing Company
Yawman & Erbe Manufacturing Company
Sargent & Greenleaf, Inc.
Davenport Machine Tool Company
Cochrane Bly Company

The fourteen firms agreed to set up separate unemployment benefit plans and adopted identical rules by which the plans should be operated. Considerable latitude is allowed the employers in the amount to be set aside and the method of administration. The purpose of the plan is to give the subscribing employers a basis upon which systems may be established suitable to peculiar conditions in the respective establishments. Payments to the fund started immediately, but benefits will not be paid until January 1933.

¹ United States Department of Labor--"Unemployment Benefit Plans in the United States and Unemployment Insurance in Foreign Countries" pp. 62-64

Method of Financing

During normal times the employers will bear the entire cost of supporting the plans. Each employer shall contribute to a reserve fund not more than 2 per cent of his annual payroll, the amount being dependent on the estimate of the requirements of the particular establishment. Payments into the fund will be continued until the amount in the fund is equal to five annual appropriations. In addition to the regular payments into the fund, each company in an unemployment emergency may assess officials and employees 1 per cent of their earnings. These emergency contributions will be matched by the company.

Benefits

A waiting period of two weeks is stipulated. The average weekly earnings for the last three months of normal employment will be used as the basis of calculation. Not more than 60 per cent of the actual earnings, nor more than \$22.50 weekly will be paid. If the worker is on a part-time basis, he will receive only such an amount as will make his weekly earnings equal to the benefit specified. If the worker secures part-time work outside the factory, he receives a sum which will make his earnings equal to his normal wage.

The period for which benefits will be paid will vary with the length of service of the employees.

Eligibility for Benefits

A workers must have one year's service with the company

and be earning less than \$50 a week to be eligible for benefits.

The unemployed person must report to the company as often as may be required. He must sign the unemployment roll and must register at the Public Employment Center of Rochester.

Administration

Each concern will administer its own plan through a committee appointed by the management. Decisions made by the committees will be subject to the general control of the directors of the respective companies.

SUMMARY

A few companies realizing the inability of their employees to meet periods of unemployment have established funds to provide unemployment compensation. The plans fall into three groups; namely, employment-guarantee plans, company supported plans, and joint-contributory plans.

The plans cover only permanent employees, and since the restrictions on eligibility to membership are rigid, many employees receive no protection.

Some of the plans which have attracted attention include that of the Dennison Manufacturing Company, those of the General Electric Company, and the co-operative scheme of the Rochester Companies.

These plans are still in the experimental stage, but are considered by many as possible substitutes for public insurance plans.

PART V

CONCLUSION

CHAPTER XII

OBSERVATIONS ON EXISTING PLANS

Insurance against unemployment is provided to a limited extent by private plans and by state plans. Each type of plan embodies certain advantages and on the other hand inflicts disadvantages upon some or all of the parties concerned.

PRIVATE PLANS

Although company plans have not as yet contributed materially toward relieving the current unemployment situation, the need for governmental action would be minimized if a more substantial proportion of the American wage-earners were afforded such protection.

Advantages

The policy of individual company plans fixes the responsibility for stabilizing employment upon a single employer. Employment regularization can be accomplished most effectively by the employer. The creation of a reserve by a company is a strong incentive to the employer to strive for regularization of employment and to reduce to a minimum drawings upon the fund for unemployment relief.

A study of private plans in existence shows a wide variation in both organization and administration of the schemes. Employers interested in providing protection to their unemployed workers have developed plans entirely on their own initia-

tive and suitable to conditions in their respective industries. No outside pressure has been exerted on the development of these plans and the result is a wide variety of schemes differing in organization and alike only in objective.

In the adoption of company plans, the progressive development of industry is not restricted. Employers are at liberty to construct any sort of plan which seems to them to be advisable. They may set aside any amount at any time as a reserve fund. No definite percentage of the pay roll must be set aside; during prosperous years, contributions to the fund may be increased, and correspondingly during slack times contributions may be eliminated.

By eliminating certain classes of workers, higher-salaried workers, clerical groups, or new employees, company plans are in a position to keep the costs of the funds within the limits employers decide may be expended.

There is little chance to obtain benefits fraudulently under private plans. Provision for the limitation of benefits to a definite period is an essential feature. Most concerns, since they employ a relatively small number of employees, are in a position to check up on those workers to whom unemployment benefits are paid. This avoids the granting of undeserved support and at the same time makes impossible an excessive burden on the unemployment funds. Public charity must be relied upon to supplement the relief provided by company plans, when conditions make it impossible for the unemployed workers to find employment at the expiration of the benefit period.

Disadvantages

Only a few companies, probably fifteen in all, have initiated plans for paying unemployment benefits. Analysis of these plans for compensating employees during slack times reveals the fact that under existing plans but a very small proportion of the working population is afforded protection. In April 1931, the survey made by the Bureau of Labor Statistics showed seventy-nine unemployment-benefit plans in existence with a potential coverage of 226,000 employees. Because of various restrictions, only about 150,000 workers now come within the scope of trade-union, joint-agreement, or company plans. The number protected is less than one per cent of the working population.

Under the private plans employers in practically every case retain the right to discharge employees. The reduction of the working force by discharge, in preference to payment of compensation to these workers, has been one means by which employers have kept their benefit obligations within available resources. Thus, a marginal labor force of temporary workers subject to instant discharge is created which must bear the brunt of unemployment without any opportunity to secure compensation.

Most companies particularly at the present time are not in a position to adopt and support plans. Such funds are dependent for their maintenance on the continued financial stability and profitable operation of the company. Experience with company unemployment systems shows the need for adequate financial provision to meet extreme situations. It is difficult to gauge

future demands but some specific provision must be made for maintaining the fund in order that the scheme will not be abandoned because of depletion of the fund. American employers who have experimented with plans have found that, as a rule, it has not been necessary for them to contribute more than two per cent of the pay roll to the reserve fund. However, in slack times when extreme competitive pressure is exerted, even two per cent may prove an excessive burden.

Comparison of Private Plans

Private plans are supported either by the employer alone, or by joint contributions of employers and workers. The problem of the most effective procedure of supporting the plans is a disputed one.

The chief argument against contributory plans is that a burden is imposed upon all employees for the benefit of a few: the workers who would benefit most would be the least skilled workers, who would make the smallest contributions.

It would appear that the advantages inherent in a contributory plan would offset this admitted disadvantage. In most ways contributory plans are preferable to employer-supported plans.

Profits of a business represent an uncertain basis for financing unemployment funds. The maintenance of the fund during periods of extensive unemployment may prove extremely difficult, unless provision is made for employee contributions. Moreover, in cases where the financial resources of the company

are limited, contributions from the employees are absolutely necessary in order to insure the accumulation of an adequate fund.

One of the greatest advantages under contributory plans is the encouragement of employee co-operation. The employee is made an actual participant in a co-operative scheme rather than merely a recipient of unemployment relief. When employees contribute to the plan they realize that excessive drawings will deplete the fund, consequently the balance is watched carefully, and any fraudulent payment of benefits will be more quickly reported to the management by contributing employees.

COMPULSORY STATE PLANS

Unemployment relief plans in all countries began with co-operative arrangements among groups of workers, which have in many cases grown to large dimensions. As more coverage and larger benefits were desired, these voluntary schemes were either supplemented by governmental subsidies or were made compulsory under public control. Most of these state plans have been in existence only a short time, yet certain advantages and disadvantages have been noted in their operation.

Advantages

The principal advantage to workers is the great proportion of the working population brought within the scope of the plans. Practically all workers in countries where compulsory schemes have been established are protected against loss of income from unemployment.

Under state plans workers in weaker industries are protected. Many industries have a much larger working force in proportion to their product than others. For example, the bituminous coal industry is considered to have more workers than it actually needs. Industries where this situation exists are usually less prosperous and their unemployment burden, through no fault of their own, is far greater. Workers in weaker industries, because wages are inclined to be lower, are even more in need of financial aid during unemployment than are employees in more successful industries.

Social conditions of the working classes can be ameliorated only by the provision of some income during periods when workers are unable to obtain employment. Involuntary unemployment should not have connected with it the distress and economic hardship which is inflicted on workers when no compensation for unemployment is provided. State plans provide for all workers on the same basis and represent a dignified method of levelling workers' income.

Disadvantages

The assessments on industry for the support of unemployment funds tend to handicap trade. The state, by taking from industry huge sums in taxation, is depriving it of its only means of facilitating expansion and development. The financial burdens imposed on industry in countries where compulsory unemployment plans are established prevent competition on an equal basis with countries which make no assessments for social insurance.

State plans emphasize the responsibility of the state for unemployment. Employers have no incentive to regularize employment. Efficiently operated industries and efficient, fully-employed workers are treated exactly the same as badly managed industries and inefficient workers. Such plans not only offer no inducement to employers to take measures for the prevention of unemployment, but actually penalize employers who maintain a high average level of unemployment, since they are obliged to contribute more proportionately to the insurance fund than employers with low averages.

A complicated organization for efficient administration is necessary whenever a state plan is established. Employment exchanges must be organized, accurate records must be kept of both contributions received and benefits paid, and suspected fraudulent cases must be investigated. The amount of work involved necessitates the creation of elaborate administrative machinery which increases the cost of state plans tremendously.

Under state plans relief of unemployment rather than its prevention is emphasized. There is no compulsion for employers to regularize production to provide steady work for their employees. Employers feel little need to supply continuous employment when they are aware that the employees will receive compensation for idle time.

The danger of malingering by both employers and employees is apparent in the operation of state plans. It is alleged that many employers offer only as much employment weekly as will still enable the employees to draw unemployment benefit.

The effect on employees is even more pronounced. With the allowances for dependents, the unemployed worker may draw a sufficient benefit to deaden the desire to secure employment. Plans providing comparatively large benefits tend to encourage idleness by virtually putting a premium on unemployment.

Excercising constant supervision over the unemployed entails great expense because of the clerical work involved. Labor also suffers from this necessary supervision. By compelling the unemployed to report to the exchanges daily, or even two or three times a week, the mobility of labor is restricted. Industrial progress is necessarily retarded when the free movement of workers from one occupation and one place to another is impeded by the requirements of the benefit plan.

When unemployment-benefit plans are under public control, the problem is too apt to assume political rather than economic importance. Officials and legislators elected by vote of the people are subject to constant and irresistible pressure to relax the restrictions of the original plan. Inevitable the result has been the almost unlimited extension of coverage, increased benefits, larger contributions by the state, general relaxation of restrictions and finally, the transformation from an insurance system into a general indiscriminate unemployment relief scheme.

Government interference in business is undesirable if industry is to progress in the face of varying and unforeseen conditions. State benefit plans promote such interference to the point where industry must pay heavily, according to what-

ever amount the government may impose, to maintain the unemployment fund.

Comparison of State and Private Plans

A comparison of the actual operation of existing government-controlled insurance plans and private plans shows that the interest and co-operation evidenced under individually operated plans can largely overcome, from an insurance point of view, the objection to state plans. One great difference is the coverage. Private plans cover only workers who are gainfully employed, with reasonable chances of continuing in employment; while compulsory government plans in their endeavor to insure the entire industrial population find it almost impossible to exclude workers who are not normally actually employed.

Private plans pay benefits only for a limited period, or as long as funds are available, and when this limit is reached, the unemployed must seek relief elsewhere. Even compulsory plans, however, pay insurance benefits for only a small part of the country's unemployment. For example, in Germany, out of approximately 5,000,000 workers registered as unemployed at the employment exchanges, only about half are receiving regular insurance benefits, the remainder receiving relief through emergency welfare funds. Even with an employment-insurance system, a large part of the cost must be met by straight poor relief. Both England and Germany are temporarily trying to meet the present situation by providing "tran-

sitional" benefits, and still enormous expenditures are found necessary as pure additional poor relief.

Experience indicates that private plans apparently are better administered than public funds. Private schemes have evolved independently and their promoters have sought to shape them to the special needs of their industries. In accomplishing this, the administrative machinery has not been elaborate; contributions have been made to the reserve fund only during years when profits were large enough to provide for setting aside reserves; benefits have been low; and the number of employees eligible to benefits has been limited.

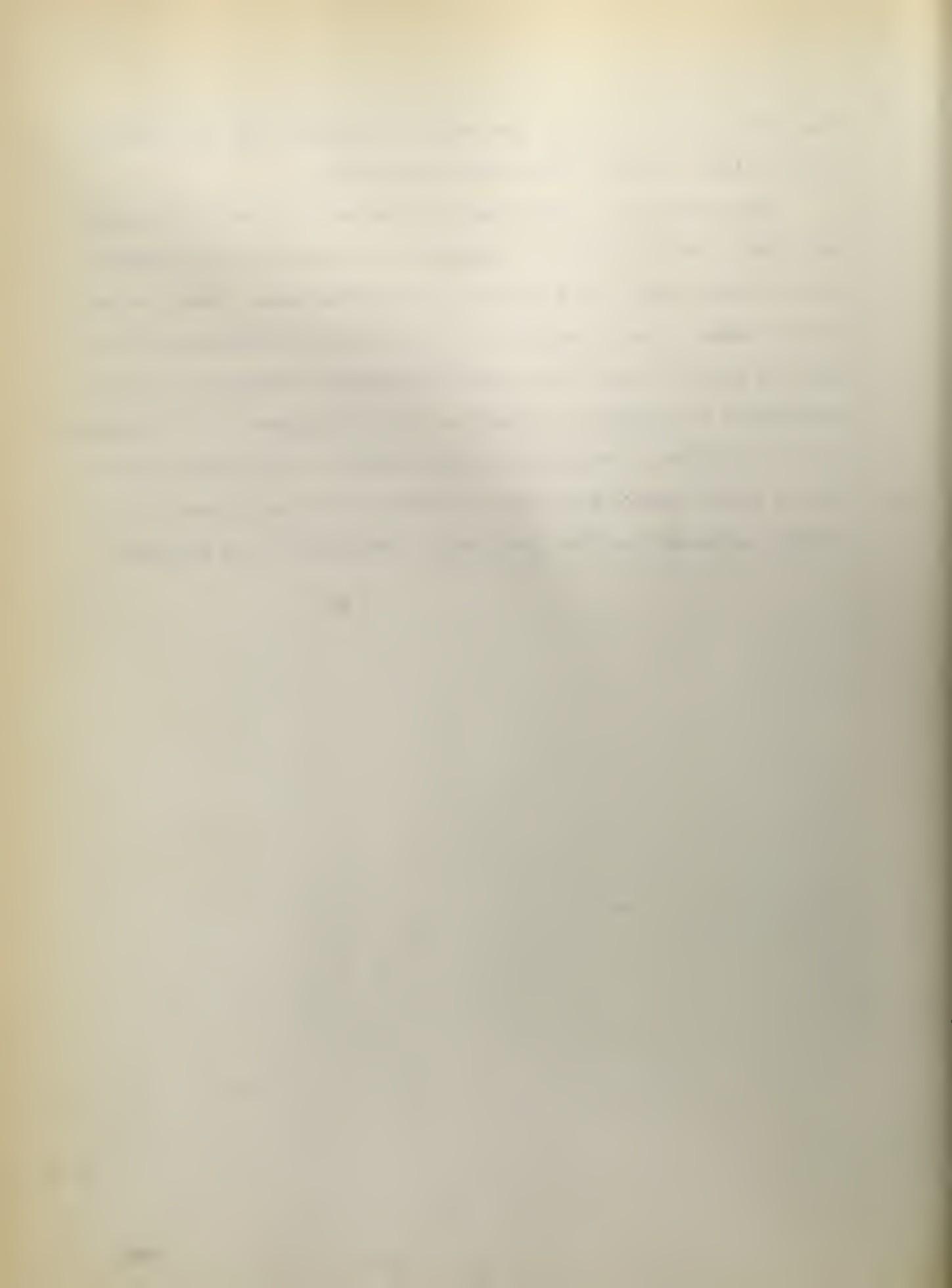
Under private plans, a better co-operative spirit between employers and employees is effected. Workers realize that the fund has been created for their benefit, and that when it is depleted, no subsidies are obtainable from any source.

Abuses are more easily detected in private plans. Since the coverage is extremely limited, there is less chance for filing fraudulent claims for benefit. Conditions in individual establishments are known to so many workers that undeserved benefits are rarely paid.

Private plans are not so apt to hinder the progress of business. Regulations in regard to the administration of the fund are neither so inflexible nor so binding as are the restrictions imposed upon industry by public plans. Private plans have decided advantages over state plans in simplicity, flexibility, and economy of operation. Under individual plans business is enabled to proceed on a fair competitive basis, be-

cause the rules by which the fund is operated may be changed at any time to meet industrial emergencies.

Experience also indicates that private plans are not apt to reduce the incentive of employers to stabilize employment. On the other hand, in a privately operated plan, where an employer bears a large portion of the burden of unemployment in his own plant, there is a direct financial incentive to keep employment as steady as possible and unemployment at a minimum. This is in direct contrast to the effect of compulsory state plans, which apparently tend to stabilize unemployment by providing compensation for practically unlimited idle periods.



CHAPTER XIII

GENERAL SUMMARY AND CONCLUSIONS

The problem of unemployment should be considered, first, from the viewpoint of prevention or reducing the contingency to a minimum; and, second, from the viewpoint of relief, or mitigating the effects that result when complete prevention proves impossible. It is obvious that relief alone is merely a palliative and in no sense a solution of the problem. Unemployment schemes are urged as measures for curing unemployment, but clearly, unless complemented by other measures for preventing unemployment or at least reducing its volume, such plans offer only temporary relief and not a permanent remedy.

Change in Form of Relief

The belief that unemployment was due to personal causes was a natural corollary of the American emphasis on individualism. It was looked upon as part of the general problem of poverty and poor relief, arising mainly out of incapacities of the workers themselves. Only such relief measures were adopted as would save the needy from utter destitution. With recurring periods of industrial depression, unemployment became an increasingly serious problem, and the various attempts made at different times to solve the problem indicate a changing point of view.

Emergence of consideration of the subject of unemployment apart from the field of charity and charitable relief has been

manifested during the last decade. Recurring periods of unemployment have convinced the public that involuntary employment is entirely beyond the control of the worker and that his case should not be cared for on a charitable basis.

Unemployment benefits are being advocated as one means of providing relief from the distress inflicted by unemployment. American thought has advanced from the theory that unemployment is a poor relief problem to a strong conviction that some other method of relief must be found. Where employment cannot be found, some form of protection is necessary, especially when unemployment becomes extensive and protracted. At present, the possibility of relieving unemployment distress by some form of insurance is being widely discussed.

Existing plans for providing unemployment benefits fall into two groups; namely, state plans, and private plans. These are further divided: (a) state plans into voluntary and compulsory systems; and (b) private plans into trade-union, joint-agreement and company plans.

Voluntary State Plans

Voluntary systems, of which the Ghent System is typical, are those in which unemployment insurance through private organizations is subsidized by the state. These relief plans began with voluntary arrangements among groups of workers which, when wider coverage and increased benefits appeared to be needed, were supplemented by state subsidies.

Nine countries have established voluntary systems by leg-

islative decree. Nowhere near all of the workers have taken advantage of the opportunity to participate in these funds. Voluntary systems have kept their funds on a fairly good financial basis, but with the limited coverage attained, the funds have not been under so great a strain during the current depression as have the compulsory state plans.

Compulsory State Plans

Compulsory systems are those in which unemployment insurance is obligatory by legislation for certain classes of workers. Such plans have been established in nine countries.

Most of the systems were intended to cover only a limited number of specified industries. Many of the original restrictions have been lightened, so that the coverage afforded by compulsory plans now is much greater than was planned under the original schemes.

The unexpectedly heavy and constantly increasing burden of unemployment, especially during the past three years, has imposed severe strain on most compulsory systems. In some instances the result has been the extension of the law beyond insurance limits: in other cases, enormous expenditures have been made under special emergency measures. When mere charity relief has been imposed upon insurance, the insurance systems have degenerated into dole systems, and the bulk of unemployment relief has been thrown on the public.

In several cases, the governments involved have been forced to incur enormous unexpected expenses, and often to in-

crease their national debts for this purpose.

Private Plans

Experiments in the United States in the field of unemployment benefits have been confined to the establishment of private plans, sometimes in conjunction with an arrangement for guaranteeing employment. These plans have been conducted by trade-unions alone, by employers and trade unions jointly, and by individual companies.

Trade-union plans and joint agreements have usually been confined to a single occupation or to a related group of occupations. Many of these plans have operated successfully during depressions as well as during slack times. However, the extremely limited coverage afforded by these plans prevents them from having any significant effect on general conditions.

Company plans controlled wholly or largely by employers are confined to the plants of single companies or to groups of companies situated in the same community. In some of the plans, provisions is made for employee contributions, either regularly or perhaps just during emergencies.

Some of the plans have had to be abandoned during the current depression while others have continued on a sound financial basis even during this unusual period. It is significant that the newer plans are on a much larger scale than the older ones.

These plans are too few in number and include too small a percentage of the workers to prove even a partial solution of

the unemployment problem. However, interest in such plans is increasing rapidly, and it is probable that more companies will establish reserve funds as soon as business conditions permit funds to be available for such a purpose.

PRACTICABILITY OF PUBLIC UNEMPLOYMENT INSURANCE

The history of existing plans illustrates how state compulsory unemployment insurance has worked out in practice. The results attained by the English and German systems have been given considerable attention.

Failure of Plans to Accomplish Purpose

These plans were established as a possible solution of the unemployment problem, but they have failed to accomplish the purpose for which they were designed. Because of the increased number brought into the plan and since the current depression has been unusually long, the original restrictions have been greatly relaxed.

Although both of these plans were worked out on an actuarial basis, subsequent events have vitiated all estimates of the amount of unemployment to be expected. The systems were not designed to meet conditions involving unemployment to the extent that it has existed during the last ten years. With the introduction of transitional or extended benefits to care for those who had exhausted their right to benefit or who had not had an opportunity to make a sufficient number of contributions to be eligible for benefits, the plans have degenerated

to a relief basis. The present operation of these schemes is that of unemployment relief measures, not insurance plans.

European experience then indicates that, while a system of insurance may provide relief for unemployment under normal conditions, such systems become entirely inadequate to meet emergency situations that arise when business depressions produce a high percentage of unemployment. It is evident that compulsory plans have not eliminated the problem to any extent, because unemployment has reached a higher level during the past year than has ever been experienced in those countries.

Practical Within Certain Limits

Although unemployment in general cannot be dealt with on an insurance basis, it is possible to apply insurance principles to unemployment if the insurance plan is definitely limited in coverage and is held strictly within the limits laid down at the start.

Financial assistance for the unemployed in the form of insurance must be recognized as a palliative measure, and not as a cure. It cannot furnish the major solution of the problem of unemployment. Any comprehensive and satisfactory solution must be one which will eliminate or greatly reduce unemployment and, therefore, the search for a solution of the problem is primarily a search for suitable preventive measures rather than for measures of relief. With emphasis placed on stabilization of employment, insurance, or compensation for involuntary unemployment must be recognized, not as the main

issue, but as the complement of regularization policies.

The hazard of unemployment is largely uninsurable, but if developed with proper foresight and safeguards, insurance plans might be devised to provide limited benefits for a reasonable period of time in the event of seasonal and perhaps even of cyclical unemployment. When cyclical unemployment develops into depressional unemployment, insurance plans could not possibly continue to cover the risk. Insurance has never been able to care for depressional unemployment without becoming, in part at least, relief or charity instead of insurance. Technological unemployment may be compensated for a limited period, but at best such compensation represents only temporary assistance. Unemployment caused by industrial disputes and by the personal disqualifications of employees must be excluded from any insurance program. To sum up, the field for unemployment insurance, as actual insurance, is confined to seasonal unemployment, which in relation to the whole field of unemployment seems a very narrow field.

Unemployment compensation is intended to assist the worker but not to provide for his entire support. Benefits must be adequate to cover absolute necessities. However, they must be set at a low enough figure that considerable incentive will be left the worker to find new employment or to engage in part-time work to supplement the amount of benefit. The purpose of insurance for aiding the unemployed is to assist workers in meeting the problem of unemployment, not to assume the entire responsibility for their economic support.

Provision for the limitation of benefits to a definite period would seem to be an essential feature of insurance plans. Indefinite provision of relief tends to remove the incentive to work and to save. Consequently, a definite limit on the amount of relief is desirable in order to avoid giving undeserved support as well as imposing an excessive burden on the funds.

Insurance plans may operate during normal times, but in extreme situations heavy demands are made upon the funds. Unless an exceptionally large reserve has accumulated, the extreme unemployment caused by depressions imposes a strain on the fund. During prosperous years, normal contributions provide sufficient financial support for the plans, but in extremely dull times such contributions are not adequate to keep the fund from being depleted.

Emergency measures should be kept entirely separate from the insurance plan. To graft such measures upon the insurance system is to transform it to a relief plan. Emergency measures should always be classified as pure relief measures.

SUGGESTIONS FOR PRESENT ACTION

Attention is now being given to various forms of insurance as furnishing a method of protection against the effects of unemployment; sustaining the standards of the working people in this country at high levels; and eliminating the stigma attached to charity. Many references are being made to the insurance plans adopted in the United States and to the

insurance schemes operating in foreign countries. It will in all probability be only a few years before the movement for unemployment insurance in the United States shall have gained momentum.

Federal Unemployment Insurance

The establishment of a federal system of insurance against unemployment is not desirable at present. The difficulties inherent in the adoption of such a system under existing conditions are numerous and most serious. Furthermore, the political organization of the United States would make the adoption of a national system of unemployment insurance impossible without a change in the constitution. The vast extent of the country, its diversified industries, and social composition would create tremendous administrative problems.

The results of foreign experiments have not been of such nature as to influence the adoption of a federal insurance plan in the United States. Principally because of the impossibility of keeping these plans within proper insurance limits, serious objections to the plans have been noted. The experience of foreign countries shows that this method of dealing with the unemployment problem is inefficient, demoralizing in its effects on the beneficiaries and on society, and prohibitive in cost.

Public insurance is contrary to American principles with their emphasis upon individual freedom, responsibility, and self-help. American development and institutions have tended to stress the desirability of meeting emergencies by individual

or private co-operative effort, and also to lead the public to question the cost of social measures. The trend of public thought demands that the cost of such measures be distributed according to the responsibility and the benefits derived.

Comprehensive, classified data on the unemployment risk in the United States is lacking. The British system was established on actuarial data far more adequate than are found at present in the United States, yet the experience of this plan illustrates how difficult it is to secure a sound basis for federal unemployment insurance.

Federal unemployment insurance is not immediately applicable as a remedy for the present unemployment emergency. There is no way by which the federal government, or any other agency, can give protection through insurance to those persons now unemployed. It requires years to put any insurance plan into operation. It is impossible under any insurance plan to create funds which would be immediately available for benefits. The present situation must be met by relief measures, and these should be frankly recognized and represented as such.

Plans by Individual States

State insurance plans for protection against unemployment are not desirable. A system of unemployment insurance organized by the separate states would present administrative problems. In view of the fact that in all probability the legislation in the separate states would differ widely, the resulting systems would not be uniform.

Employers in states where insurance plans were adopted

would be assessed for the support of the fund. These assessments would prevent them from competing on an equal basis with industries in states where no compulsory insurance plans existed.

Company Plans

Although company plans for the relief of the unemployed have developed slowly in the past, growing interest in such plans indicates that this policy is being seriously considered as an alternative for public unemployment insurance. It is generally recognized that industry is concerned with the social welfare of its workers and should bear the major share of the cost of benefits for unemployment.

Apparently the best way to approach the problem of unemployment benefits is by the encouragement of further experiments in company plans by private concerns. Willingness on the part of a few employees to make such experiments has been evidenced. Wider adoption of these plans would tend to minimize the need for public unemployment insurance.

When an employer covers his individual risk by his own fund, a greater incentive exists to reduce the unemployment risk. Greater effort will be made to stagger production, to seek new marketing methods, and to find new products which might be added so that fluctuation in production could be reduced. The individual employer can determine and control the risk in his own establishment more accurately and successfully than any one else. To the employee such plans bring greater security, and at the same time because of the limited benefits

do not result in less incentive on his part to save.

Increased and diversified experimentation with voluntary schemes is needed for the securing of data on which a sound governmental plan may be based later, if such a system should come. The operation of such plans when gradually extended and perfected will develop a body of experience that will yield valuable actuarial data. Industry has the experience and is competent to take the initiative in putting into effect some sound and practicable plans of unemployment relief.

Since none of the existing foreign insurance plans appear to be applicable to conditions in the United States, and since there is an increasing demand for some sort of public unemployment-insurance system, the data provided by private plans would provide an approach to sound legislation.

Recognition of Responsibility by Government

That the Government of the United States has advanced in its feeling of responsibility for the unemployed is shown by increased appropriations for public works, appointment of committees to investigate the situation, and the emphasis placed on stabilization of industry. It has not yet recognized the necessity or desirability of providing financial aid for the unemployed. The chief industrial countries of Europe have acknowledged the relief of the unemployed as a national duty.

In April 1931, only fifteen company plans were paying unemployment benefits. It is maintained by the Industrial Relations Counsellors that most company plans will be adopted only

as management becomes convinced that the efficiency of labor would be increased by their establishment.¹ During the last ten years of experimentation only a few workers have been brought within the scope of private plans, and it would appear that the adoption of such plans will proceed slowly unless stimulated by outside pressure. Furthermore, employers are always unwilling to add an additional operating expense which would decrease profits. It would seem that a wide coverage under company unemployment-benefit plans will come only through legislation.

The increasing number of bills introduced into state and federal legislatures every year indicates that the question has assumed political importance. There is a growing demand by workers for financial assistance against recurring periods of industrial depression. The first step in this direction has been the adoption of the Wisconsin Bill. This plan is not yet in operation but its establishment indicates that one state has gone on record as approving unemployment-benefit payments under a public-controlled plan.

The Government should not rely upon the unstimulated evolution of voluntary plans. It must be recognized that the development of voluntary plans, even if they were eventually extended to the widest possible limits, represents only a partial solution to the problem of unemployment, since these plans must be restricted to the more stable and permanent labor force.

¹ Harry W. Laidler--"Unemployment and Its Remedies" p. 75

Public concern is aroused now when large numbers of workers are, without any fault on their part, deprived of employment on account of recessions in business activity, which may be due to causes even beyond the control of industry itself. From the distress of the moment may arise a movement toward a public-controlled system of unemployment insurance. While the opportunity remains to work out a solution of the problem, wholly or largely by private and co-operative endeavor, it would seem that all possible efforts should be directed to that end.

Government must seek some successful plan to meet the increasing demand for unemployment protection. The first step toward scientific solution of the unemployment insurance problem in this country lies in the direction of securing and assembling accurate statistics on the amount and incidence of unemployment. Such consideration is essential before future legislative experiments in this field may safely be undertaken, by federal or state governments, with reasonable assurance of satisfactory and beneficial results to industry and society.

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